Annual Report 2005/2006

KappAhl®

Year in summary

- Best annual results so far.
- Net sales up 6.9 per cent.
- Operating profit up 32 per cent.
- Continued strong demand on all markets.
- KappAhl continues to expand. 20 new stores opened and 2 closed in 2005/2006.
- KappAhl's shares were quoted on the Stockholm Stock Exchange on 23 February 2006.

KEY FIGURES

	Sep 2005–Aug 2006	Sep 2004–Aug 2005*
Net sales, SEK m	4,217	3,945
Operating profit, SEK m	530	403
Profit after tax, SEK m	302	264
Gross profit margin, %	60.2	58.6
Operating margin, %	12.6	10.2
Earnings per share, SEK	4.02	3.52
Number of stores	260	242

* The figures are pro-forma and refer to the 12-month period between 1 September 2004 and 31 August 2005.

FUTURE REPORTS 2006/2007

Q1 (1 Sep–30 Nov)	21 Dec 2006
Q2 (1 Dec–28 Feb)	29 Mar 2007
Q3 (1 Mar–31 May)	28 June 2007
Q4 (1 Jun–31 Aug)	3 Oct 2007

The KappAhl Group's formal financial report is at pages 34–73.

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KAPPAHL IS a leading Nordic fashion chain with 260 stores in Sweden, Norway, Finland and Poland. We design, market and sell clothes for women, men and children.

KappAhl's head office is located in Mölndal, on the outskirts of Göteborg. Staff at head office design, buy and market KappAhl's range of clothing. Warehousing and distribution to stores on all markets are managed by the distribution centre, located next to the head office.

The KappAhl Group employs around 3,700 people. More than 90 per cent of our employees are women. The corporate management team has a majority of women (5 of 7).

During the 2005/2006 financial year ending 31 August 2006, KappAhl reported sales of SEK 4.2 billion, with an operating profit of SEK 530 million.

KappAhl has been listed on the Stockholm Stock Exchange O list since 23 February 2006.

KAPPAHL'S BUSINESS AREAS • WOMEN • MEN • CHILDREN

Share of net sales, 56.3%

WOMEN KappAhl's biggest business area offers customers clothes for every occasion – party, smart-casual and leisure. The collections include complete wardrobes, from underwear to outdoor clothing. Read more on page 18.

Share of net sales, 16.7%

MEN The business area continues to strengthen its position on the market with inspiring clothes and clear concepts. Fashion trends meant that classic fashion and jeanswear sold well – an area where KappAhl is strong. Read more on page 20.

Share of net sales, 27.0%

CHILDREN KappAhl has clothes for the new-born baby and children up to age thirteen. The business area has broadened its range, is taking market shares and strengthening its position on all markets. Read more on page 22.

OUR VISION

KappAhl will be the **market leader** and the most **profitable fashion chain in the Nordic countries** for customers aged 30 to 50.

OUR MISSION

Our mission is "**Value-for-money fashion** with a wide appeal". We see it as our job to give people the opportunity to be **well dressed**. When customers have shopped with us they should feel they are fashionably dressed and feel that it was money well spent.

OUR CUSTOMERS

KappAhl sells fashion for the entire family, but our target group is **women** aged 30 to 50 who buy for the entire family. We focus major resources on understanding our customers and their situation in order to help them dress themselves, and their families, well.

We monitor fashion trends and adapt them to products that meet our customers' needs. This customer focus is an important reason why we are one of the biggest in the Nordic region in ladies clothes and that we are also forging ahead in menswear and childrenswear.

OUR BUSINESS CULTURE

Our business culture can be described by four key values that direct us towards our vision.

1. **Courage, commitment and the will to win.** To be leaders we must want to win and believe in ourselves as winners.
2. **Simplicity.** We seek simplicity in everything we do – focusing on the customer.
3. **Clarity.** Being distinctive simplifies our activities and makes targets more visible. We concentrate on what's important and choose to ignore the rest.
4. **Pace**. To progress from word to deed is crucial for our success. We act forcefully and rapidly – more rapidly than the competition.

OUR STRATEGY

KappAhl's strategy is aimed at sales growth and improved profits.
The strategy consists of:

- expansion of store network
- continual upgrade of stores
- increased sales in existing stores
- using benefits of scale in the business model.

A **record year** for KappAhl

KappAhl's 2005/2006 financial year was fantastic. We beat our sales record, achieved our best ever results and KappAhl was listed on the Stockholm Stock Exchange.

We have reported improved earnings for seventeen quarters running. This is a trend that I'm very proud of and a performance that we'll work hard to maintain.

RECORD SALES AND EARNINGS

Summarising the year we can see that sales rose by 7 per cent to around SEK 4.2 million and we were successful on all markets. In Sweden we retained the lead position for sales of clothes in stores, and in Norway we have moved from fifth place on the market one year ago to third place today. We have also improved our standing in Finland and Poland.

The operating profit climbed by more than 30 per cent to SEK 530 million, which as mentioned before is the best result in KappAhl's history. The increased sales naturally helped results. Other contributory factors were the improved gross margin and the cost discipline that permeates the entire company. But the sales hike is mainly due to incredible teamwork. It's difficult to point to a single area where we have excelled over another, or for that matter an area where we haven't performed satisfactorily. The co-ordinated efforts of so many colleagues have made this result possible.

"We beat our **sales record**, achieved our **best ever results** and **KappAhl was listed** on the Stockholm Stock Exchange."

CUSTOMER-FOCUSED BUSINESS MODEL

We don't sell expensive clothes to a chosen few. Our mission is to provide value-for-money fashion for many people. Our primary target group, women aged 30+ who shop for the entire family, is growing and spending more of their income on clothes.

We have a clear customer-oriented business model – our starting-point is to constantly capture trends in fashion and adapt them to KappAhl's customer requirements. We quite simply provide clothes that customers want.

Our business model also includes controlling the flow throughout the entire value chain, from design and purchasing all the way to the customers' shopping bags. Because we control every part of the process it's up to us to succeed in reaching our set targets and improving our results.

OUR OBJECTIVE IS HIGHER SALES

In recent years we have concentrated strongly on improving our gross margins. This effort is now bearing fruit and we now have among the highest gross margins of any company in the industry. Our aim now is to maintain gross margins and increase sales, which will be achieved by establishing more stores and convincing more people to buy our fashion.

We stepped up the pace in 2005/2006 for store expansion by opening 20 new stores – five in Sweden, eight in Norway, four in Finland and three in Poland. The total is now 260 stores. Two stores closed – one in Norway and one in Poland.

This year we expect to open between 15 and 20 stores, probably in the upper end of this estimation. We have contracts for a further 26 stores to open within the next 24 months and ten stores were opened during the first quarter.

The question is often asked whether KappAhl is ready to take that extra step into other countries. The answer is that we would quite easily be able to manage new markets, but our current geographic spread covers enough room for expansion to keep us busy for the next four to five years.

For sales to grow to the extent we want it's also important that we succeed in attracting more customers to our stores. There are more women in our core target group who we need to convince that KappAhl is the right store for them. We know from experience that as soon as they visit us they like what they see and buy our fashion.

The much-publicised advertising campaign "You look great" is one way of trying to tell more people about the KappAhl brand and our fashion.

We like what we do and we want more people on all our markets to be able to take advantage of what we have to offer.

A CONFIDENT COMPANY

KappAhl is a confident company. It's obviously nice to be part of a winning team, but success also means that our ambitions and the demands of the world around us increase.

We already do many things right and there are good vibrations in and around KappAhl. One of my duties is to make sure that we don't relax and start taking success for granted. We all have the potential to continue developing KappAhl towards our vision of becoming the leading and most profitable fashion chain in the Nordic region for customers between 30 and 50.

Göteborg, 8 November 2006

Christian W. Jansson

A growth **market**

KappAhl sells clothes in Sweden, Norway, Finland and Poland. These are markets that have been characterised by growth in recent years but also by tough competition.

The total market on KappAhl's Nordic market in 2004 was valued at around SEK 121 billion including VAT. The market continued to grow in 2005 and during the January to August 2006 period growth continued strongly on all markets.

MACRO-ECONOMIC FACTORS

There are more factors that affect growth in the fashion retail industry. Overall economic growth, often measured as GDP, is naturally of significance. In recent years economic growth has been positive on all KappAhl's markets.

Private consumption in recent years has been one of the most important driving forces behind economic growth, not least in Sweden. In addition, the share of private consumption spent on clothes has gradually increased, which is naturally positive for KappAhl.

Demographic changes also affect demands over the long term for KappAhl's products. Population data shows that the proportion of the population over 30, and thereby potential KappAhl customers, is growing gradually. This development is the same on all four of KappAhl's markets.

Weather also affects demand in the short term, which can affect sales over a specific quarter. Autumn and winter are the main seasons in terms of sales volumes, because they contain a greater percentage of more expensive items of clothing such as coats and jackets. A warm autumn can delay demand for these items, which will mean lower sales numbers than expected during that quarter. The effects of the weather are of minor importance over the long term.

KEY DRIVERS

There are also a number of factors within the clothing industry that affect demand. The industry has undergone significant changes in the past 15–20 years. Fashion is becoming more global and more similar. This has benefited the major fashion chains, at the cost of smaller, local stores. The major chains are constantly increasing their share of the market. Companies such as H&M, Inditex and Gap are prominent globally, while in the Nordic region chains such as KappAhl, Lindex and Dressman have been advancing their positions.

Distinct concepts and a well-defined market position are important factors. Trends pass quickly and in more numbers than ever before. Consumers are more likely now to mix styles, fashions, quality and price. Developments mean that it's more important than ever for clothing companies to clearly define their market and their branding image. KappAhl has a well-defined target group and a clear message – Value-for-money fashion with a wide appeal.

MORE COMPETITION

Competition in the clothing industry is tough, but KappAhl is continuing to strengthen its position. Clothes and garment types are also battling with other goods and services for consumer spending.

Competition comes from other international chains, local chains, independent stores, department store clothes departments and, to a certain degree, supermarkets and sports stores. Among chain stores, KappAhl's most important competition in Sweden includes Lindex, H&M and MQ, in Norway Cubus and Dressman, and Seppälä in Finland. In Poland KappAhl competes with Reserved and Royal Collection.

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KappAhl´s markets

KAPPAHL IN SWEDEN

Population: 9 million
Clothing consumption per capita: SEK 6,200 per year.
Number of stores: 130 (125)
Main competitors: Lindex, H&M, Cubus and Dressmann.

The Swedish economy continued to expand during the 2005/2006 financial year. GDP grew by 2.7 per cent in 2005 according to the Central Statistical Office. According to HUI's forecast in July 2006, Swedish GDP is expected to grow by 4.0 per cent in 2006. Private consumption grew by 2.4 per cent in 2005 and HUI predicts it will grow by 3.2 per cent in 2006. Retail sales climbed 4.7 per cent in 2005 according to HUI. In the first eight months of 2006 the increase was 7.6 per cent.

As of 31 August, KappAhl had 130 stores in Sweden, compared to 125 stores in the previous year. 5 stores opened during the 2005/2006 financial year. According to figures from GfK, KappAhl is the biggest clothing chain in the country measured by total store sales (excluding mail order). In recent years KappAhl has boosted its market share in overall terms and within respective segments. KappAhl is the second largest fashion retailer for women's and men's clothes and third largest for children's clothes.

The major clothing chains dominate the market in Sweden. International chains also have a stronger presence in the clothing industry than in other retail sectors.

KAPPAHL IN NORWAY

Population: 4.6 million
Clothing consumption per capita: SEK 8,700 per year.
Number of stores: 81 (74)
Main competitors: Lindex, Cubus, Dressmann and H&M.

The Norwegian economy grew by 2.3 per cent in 2005, measured as GDP. Private consumption grew by 3.2 per cent according to the Central Statistical Office. GDP grew by 4.0 per cent during the first six months of 2006 and private consumption grew by 3.8 per cent.

As of 31 August, KappAhl had 81 stores in Norway. One year earlier there were 74 KappAhl stores in the country. 8 stores opened and 1 closed during the financial year.

KappAhl is established in most Norwegian cities, either in the city centres or in out of town shopping centres. In general terms KappAhl is the fifth largest fashion retailer in Norway, according to figures from GfK. KappAhl is the second largest fashion retailer for women's clothes, fourth largest for children's clothes and seventh largest for men's clothes.

As in Sweden the major clothing chains dominate the market. International chains, mainly from Sweden, have taken market shares at the expense of independent clothes stores in recent years.

KAPPAHL IN FINLAND

Population: 5.2 million
Clothing consumption per capita: SEK 4,800 per year.
Number of stores: 36 (32)
Main competitors: Seppälä, Lindex and H&M.

Finland's GDP grew by 2.1 per cent in 2005 according to the Central Statistical Office. GDP grew by 5.9 per cent during the first six months of 2006. Private consumption grew by 3.8 per cent in 2005 and by 4.0 per cent during the first six months of 2006.

As of 31 August 2006 KappAhl had 36 stores in Finland, compared to 32 the previous year. KappAhl opened 4 stores in Finland during the financial year.

As opposed to Sweden and Norway traditional department stores and supermarkets represent a major share of clothes sales in Finland. International chains are established and are successful on the Finnish market. The Finnish market is becoming more segmented. Analysts suggest that players with clear concepts have the best outlook.

KappAhl is among the ten biggest fashion retailers on the Finnish retail trade segment for ladies', men's and children's clothing.

KAPPAHL IN POLAND

Population: 39 million
Clothing consumption per capita: SEK 1,100 per year.
Number of stores: 13 (11)
Main competitors: Reserved, Royal Collection, H&M and Cubus.

The Polish economy has seen exceptional growth over the past ten years. In 2005 GDP grew by 6.2 per cent and by 5.3 per cent over the first six months of 2006, according to figures issued by the Central Statistical Office. Private consumption increased by 4.0 per cent in 2005 and by 6.1 per cent over the first six months of 2006.

As of 31 August 2006 KappAhl had 13 stores in the country, compared to 11 the previous year. 3 stores opened and 1 closed during the financial year.

Compared to other markets where KappAhl operates, the Polish market is far more fragmented with many independent stores. One of the reasons is that around 40 per cent of the population live in the rural areas or in small towns. The structure of the clothing market in the cities is similar to that in the Nordic region and the rest of Western Europe.

Sales are however beginning to be concentrated, in line with the major chains taking market shares. A number of international clothing chains have begun establishing in the country in recent years.

A distinct **offer** for attractive groups

KappAhl has a strong brand associated with positive qualities such as loyalty, reliability, value-for-money and casual fashion clothing.

KappAhl has a strategically well-established position on the market with a wide range of fashionable and value-for-money clothes and accessories for women, men and children. Our target group is growing and now has more spending power than the younger customer categories.

WELL-DEFINED TARGET GROUP

KappAhl's target group is mainly women aged 30+ with a family. There are many reasons why women with a partner and children are KappAhl's most important customers. The 30+ age group is large and growing as a percentage of the population in all countries where we operate.

We also believe our customers are more loyal and not as unpredictable as younger target groups. They might not be the target group that spends most money on clothes, but as well as for themselves they often buy clothes for their partners and children at the same time.

They want to dress fashionably and trust that we can help them do that. Most of our customers work in the public sector. They therefore belong to a category of people that might not benefit most of all during times of economic prosperity, but neither are they affected badly by times of economic crisis. We believe that this makes it easier for us to plan our business and that we are less sensitive to fluctuations in economic lifecycles than most of our competitors.

CUSTOMER-ORIENTED BUSINESS CONCEPT

KappAhl is characterised by a clear customer focus. Our business concept is to adapt fashion to suit KappAhl customers.

We are always looking out for customers' needs, when designing clothes, when running campaigns and when communicating in other ways with them. As the latest trends appear we take the best and adapt them to products that help brighten our customers' day-to-day life. With everything we know about our customers we can also choose not to design clothes that follow the most extreme fashion trends. We always try to provide the right quality, the right fashion at the right price.

A strategic product group for us is trousers. We identified a gap in the market and have successfully become market leaders. When customers buy trousers they prefer to combine them with other garments such as tops, blouses and shirts, or accessorise with belts and socks.

Read more about our different business areas starting on page 18.

STRATEGY WITH A FOCUS ON GROWTH

In recent years KappAhl has been strongly oriented towards increased profitability through boosting gross margins. The strategy has been successful and the company's gross margin is one of the highest in the industry. The improved profit has created a stable foundation for growth.

The focus on growth for the 2005/2006 financial year has been clearer than ever. The growth strategy aims at expanding the store network and increasing sales in existing stores. The desire is also to continue improving profitability by continuing to improve utilisation of purchasing and logistics resources and our infrastructure.

EXPANSION OF STORE NETWORK

On 31 August 2006 we had 260 stores, of which 130 were in Sweden, 81 in Norway, 36 in Finland and 13 in Poland. 20 stores opened during the financial year, of which 5 in Sweden, 8 in Norway, 4 in Finland and 3 in Poland, while 2 stores closed.

We are planning to expand our store network and thereby increase our market share. Our expansion focus in terms of new stores will be in shopping centres and small to mid-sized towns and cities. From a historical

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perspective it's there that we are most profitable. We expect to open 15–20 new stores in 2006/2007, evenly distributed across the four markets. By October 2006 we had signed contracts for 26 stores.

There is continued strong potential for establishing new stores in the Nordic countries. In addition, the Polish market is very interesting with significant potential over the mid to long term.

CONTINUED INVESTMENT IN STORES

KappAhl is currently in a comprehensive investment phase for the renovation and rebuilding of the Group's stores. When the stores have been renovated they usually attract more business, an increasing number of shoppers and more sales per square metre.

Future plans include store renovations every 5 to 7 years on average. Stores in the best locations often require more frequent renovation to retain the competitive edge.

SALES INCREASES IN EXISTING STORES

A challenge for KappAhl in terms of increasing overall sales is to ensure that sales in existing stores increase. Sales fell in 2005/2006 in comparable stores by 0.3 per cent. Sales of cosmetics, which are being phased out, pulled down sales by 1.5 per cent. In other words sales of clothes increased in comparable stores by 1.2 per cent throughout the year.

Upgrading stores is an important ingredient for sales increases. Other activities are also very important: marketing, improved store layout, attractive display with inspiring clothes combinations and the development of the product mix.

EXPLOIT BENEFITS OF SCALE IN THE BUSINESS MODEL TO IMPROVE PROFITABILITY

When expanding the store network, large-scale benefits in existing structures can be utilised. The current organisation of central functions is scaled to manage expansion, which means that costs of running the store network do not increase at the same rate as sales.

KAPPAHL HAS MANY COMPETITIVE ADVANTAGES

- A strong brand and strong market presence.
- The primary target group, women aged 30+ with a family, is growing as a share of the population.
- The customer group is more loyal than younger consumers.
- A customer-oriented business concept aimed at adapting the fashion to the preference of KappAhl's customers.
- Major retail expertise with in-house design, purchasing, logistics function and presence in the manufacturing countries.
- Improved profitability as a result of rising gross margins, increased sales and utilisation of benefits of scale.

Targets and **performance**

KappAhl's board has established operative and financial targets for the Group.

OPERATIVE TARGETS

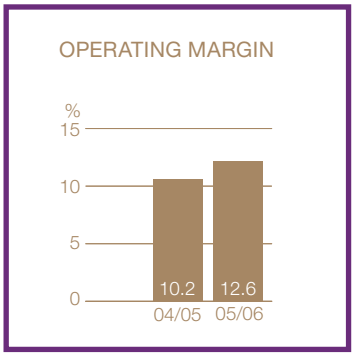
- The number of stores will increase by 15–20 each year for the 2005/2006 and 2006/2007 financial years.
- The operating margin will exceed 10 per cent.

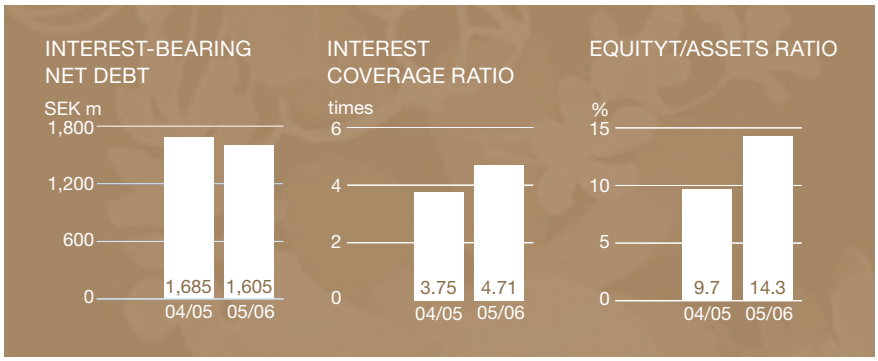
KappAhl opened 20 new stores in 2005/2006, while 2 were closed. The operating margin was 12.6 per cent.

FINANCIAL TARGETS

- The interest-bearing net debt should only exceed EBITDA temporarily by a multiple of three.
- The interest coverage ratio should exceed a multiple of five.
- The equity/assets ratio should exceed 20 per cent at the end of the 2007/2008 financial year.

As of 31 August 2006 the interest-bearing net debt was 2.3 times EBITDA. The interest coverage ratio was 4.71 times and the equity/assets ratio was 14.3 per cent.





Control of the entire **value chain**

The value chain of the clothing industry can be split into:

- Design
- Purchasing
- Manufacturing
- Distribution
- Store sales

KappAhl's business model includes having control of the entire value chain – from design all the way to selling in-store. We work with an integrated model for design, purchases, supply and acquisition, quality control, distribution and sales. The model makes it possible to work with open order books, which means that we can alter designs very late to adapt the garment for changes in fashion.

Responsibility for designing commercially viable collections rests with teams specialising in women's, men's and children's collections. The teams include designers, buyers, product technicians, assistants and an economist/controller.

The products are developed for four season collections a year that are then split into a number of series and themes. For example the women's Autumn 2006 collection had themes such as Clean, Rock, True Blue, Romantic and Country House.

The teams work with many seasons at the same time – they design for the coming season and sometimes the coming two seasons, while keeping track of how the current season's collection is selling.

CUSTOMER-ORIENTED DESIGN

Design has a central role at KappAhl. Our designers design all the clothes and accessories we sell and there are around 30 designers.

They get their inspiration from many different areas, such as street fashion from the major cities around the world, music videos, sporting events, literature and also from the international textile exhibitions and fashion shows. They search professional fashion databases and industry organisations. They capture fashion trends, examine quality and materials and then adapt the prevailing fashion into clothes that appeal to KappAhl's customers.

All the collections are set off against one another to ensure a clear range and conformity with KappAhl's brand. Our design is customer-oriented rather than product-oriented and has been important for KappAhl's success in recent years. We consider that this way of working leads to better ranges in terms of fashion, sizes, quality and price. This provides increased full-price sales and thereby greater profits.

KAPPAHL'S BUSINESS MODEL

KappAhl's business model includes being in control of the whole value chain, from design and all the way to the sale at a store. The model makes it possible to work with open order-books, meaning that we can change a design at the last moment to adapt the garment to any fashion changes.

EFFECTIVE PURCHASING

Together with our designers, our buyers have major responsibility for ensuring that what arrives at the stores is commercially viable. Buyers decide what garments will be manufactured and in what volume. They set the sales prices and they negotiate purchase prices with the support of the purchasing department. They can also make changes to designs of certain garments, for example to make manufacturing easier. Buyers are responsible for the gross profit of sales of the garments. They conduct follow-ups of each garment, from the initial design to the product reaching the stores. They are also responsible for deciding when to reduce prices.

CAREFULLY CONTROLLED MANUFACTURING

KappAhl doesn't have any in-house manufacturing and all production is subcontracted to independent companies. We are not dependent on any individual supplier as we order from around 200 companies. 30 or so manufacturers supply around 60 per cent of the volumes bought in. Most of our purchases are made in Asia, with around 70 per cent of garments coming from Asia and the remaining 30 per cent coming from Europe.

Acquisition and supply are co-ordinated by KappAhl's supply and production department who work closely with our purchasing offices in Bangladesh, Hong Kong, India, China, Lithuania, Turkey and the Ukraine.

The purchasing offices follow up quality and price and how manufacturers keep to KappAhl's code of conduct. They also follow up manufacturers' environmental work, search for new suppliers, monitor goods dispatch and administer exports. In brief: they are the extended arm of KappAhl in key purchasing markets.

EFFECTIVE DISTRIBUTION WITH ADVANCED IT SUPPORT

Good distribution, supported by effective IT systems is essential if the supply of goods is to function smoothly in such a large company as KappAhl. In our industry it's usually said that the right product should be in the right store at the right time and of the right quantity, which is true if we are to succeed in maximising sales. Too little or early goods lead to a loss of sales and too many or late goods increase the need for price reductions.

In recent years KappAhl has carried out major investments to make the flow of goods more effective. We currently have a cost-effective distribution network that can stand up against the best in the industry.

Our distribution centre is located next to the head office in Mölndal, on the outskirts of Göteborg. It is the most modern in Europe and is almost fully automated. Every year almost 50 million garments pass through the centre and it has the capacity to be extended to handle around 100 million garments with a relatively small investment.

Supplies are given bar codes compatible with the computerised packing lists during manufacture. How the goods are finally distributed is decided during transport to the distribution centre. Distribution is based on budgeted and actual sales.

Most transport from the manufacturing countries is by sea for environmental and cost reasons, and air freight is only used if absolutely necessary. Most goods go straight out to the stores. Some basic goods and some other goods are held back for the stores to be filled gradually.

Stores receive deliveries three to four times a week. Stores that sell a lot get daily deliveries. It's important to keep the stockrooms as small as possible, so that the area can instead be used for sales areas.

IT systems are continually improved. Our allocation system has been upgraded to handle quantities, timing, sizes and colour plus the climate in the regions where the stores are located. Goods allocation has been centralised during the year and is now run from the head office in Mölndal for all markets. The aim is to improve efficiency and routines, reduce the number of goods for clearance sale and thereby increase profitability.

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Stores that inspire

Around 100 million people visit KappAhl's 260 stores every year. We must naturally provide the right products, but the stores' layout is also significant in terms of ensuring that visitors become paying customers.

In many ways the stores are KappAhl's heart and soul. It's here that our garments and store personnel meet the customers. A majority of what customers associate with us as a company and brand, occurs in the store. Our strategy is to expand the store network, mainly by establishing stores in shopping centres and in small and medium sized towns.

WELL-LOCATED STORES

Our stores are noted for their good locations in towns and cities. The stores are located where masses of people pass by and vary in size from 700 square metres to 1,000 square metres. The average size of a store is 850 square metres.

The stores are KappAhl's most important channels for communicating with customers and our store concept is constantly being developed and refined. Good store communication is a combination of many factors – window displays, entrances, the range, displays, cashiers' desks and advertising. We want our stores to be as integrated as possible and help customers gain inspiration with excellent presentation of garments and accessories.

Store managers and display assistants have played a major role in improving our displays. Our concept is self-service, where we try to assist customers in finding suitable clothes, try them on and then pay for them. We also try to present the collections as clearly as possible so that it's easy for them to combine and match garments and make up their minds before they buy.

In-store activities follow the same sales and activity plans with distinct offers for customers. Customers that usually shop with us also feel that there is always something new in our stores thanks to the high activity rate.

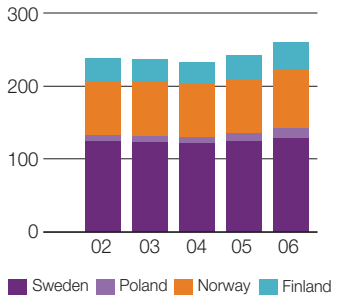
OPTIMAL MANNING

A major challenge in recent years has been to review manning and make it as optimal as possible in stores, as personnel are a major part of our costs. This has meant a reduced number of personnel in stores. Manning follows variations in demand between different days of the week and different seasons. Many of the in-store personnel work part time, but the number of full-time personnel is more than most people would imagine. Around 25 per cent of all in-store personnel work full-time.

We have also put a lot of energy into uniform routines in stores and an exchange of experiences between stores of similar sizes.

KappAhl has an efficient stock system that aims at maximising profitability in the products sold and boosting the turnover rate. The stock turnover rate is constantly followed and we use pricing and various campaigns so that as many goods as possible are sold at full price.

STORES OPENED AS ON 31 AUGUST



Campaign-driven **marketing**

KappAhl works with Group-wide campaigns that change every other or every third week. The campaigns are uniform in appearance across all stores. In-store displays are changed for each campaign.

All marketing is co-ordinated at Group level. The marketing department at the head office is responsible for sales campaigns, external media, advertising, display materials, in-store signs and PR activities.

FOCUS ON ADVERTISING THAT ATTRACTS CUSTOMERS

KappAhl's marketing focuses on the Group's stores, printed media, the company's website, radio and some other PR activities. Customer loyalty cards are also an important tool because they increase the opportunity towards customer-adapted direct marketing. The media mix was amended during the financial year and KappAhl returned to TV advertising.

The marketing department and the purchasing department work out joint weekly sales plans for all KappAhl's collections. The sales plans are used on all markets. The campaigns carried out should be formulated with clear ranges that attract customers to the store.

Campaigns are produced as early as the design stage. The aim is naturally that the garments and the campaign will have a big impact on a very competitive market.

LOYALTY SCHEME STRENGTHENS THE RELATIONSHIP

KappAhl's loyalty scheme is an important marketing tool. In Sweden the Medmera card and KF's membership card are linked to the scheme. In Norway KappAhl works in association with the Coop NKL card, while in Finland and Poland the KappAhl Club card was launched during the year and the cards' popularity among customers has exceeded our expectations.

Irrespective of the type of card, KappAhl works similarly with its customer schemes in the various countries. The cards allow access to information about customer profile and purchase history, which is an excellent foundation for marketing campaigns towards various customer groups. The card customers are especially important, because they tend to buy more than the average customer.

KappAhl®

Most ladies clothes are sold under the KappAhl brand. The range is divided into well-dressed and casually-dressed sections.

Creem®

CLOSE TO YOU

The Creem bra collection consists of models to suit many female forms and requirements. We have taken extra special care from the choice of materials to the models.

XLNT

by KappAhl
from size 42/44

XLNT is a growing collection and a good sign that it is possible to combine fashion, function and freedom of movement. The XLNT collection is available in sizes 44 to 56.

bodyzone®

Underwear, nightwear, socks, tights and in the summer also swimwear.

BUSINESS AREA WOMEN

Inspiration and guidance

The Women business area offers customers clothes for all occasions – party, formal and casual. The collections contain complete wardrobes from underwear to outdoor clothing and accessories.

This is KappAhl's biggest business area and accounted for 56.3 per cent of the Group's sales in 2005/2006.

CUSTOMER-ADAPTED FASHION

At KappAhl we are very clear about who we design our clothes for – women aged 30+ with a family. We work constantly at providing these women access to our fashion. Fashion never stands still and is increasingly accessible through the medium of TV and magazines. There are now more kinds of fashion in circulation simultaneously than there was just a few years ago.

"Our customers are fashion-conscious and they should feel secure in the notion that we have the latest fashion for them. We help customers find the right ready-styled wardrobe. I believe we do this well, but we must never rest on our laurels," says Carina Ladow, who is one of the four people responsible for the business area.

KappAhl's designers and purchasers are expert at finding the major fashion phenomenon and making them commercially viable and Carina emphasises that it's a matter of taking charge of current trends and adapting them to KappAhl's customers.

STRONG IN TROUSERS

KappAhl identified trousers as a strategic garment group a few years ago. We put a lot of effort in designing a fashionable range in a number of models, where good fit was the key focus. We know that it's a nuisance trying on trousers and if the customer makes the effort then it's important that she doesn't feel tricked in front of the mirror. The idea was that we would become really good with trousers, but we became the best! KappAhl has the right size trousers for every occasion and today we sell as many smart trousers as jeans.

Another garment group that we've invested in is tricot, a rapidly expanding garment group. Tricot helps you renew your wardrobe simply and cheaply.

"We have nearly a thousand different tricot tops in our range every year. Our competitors renew their ranges once a week, while we fill our stores with new fashionable tops every day."

NEW BRA RANGE

In autumn 2005 our underwear collection took a giant step with the launch of our very own bra brand, Creem. This is an upgraded range with fantastic fit.

"The idea behind Creem is that the bras should be more exclusive. Not too fancy, but with great size variety. We have made a lot of effort in getting function and quality to be perfect throughout the range. That's why the price is somewhat higher than our other bras. Creem has been right on target since it was launched," says Carina.

DESIGN FOR CAMPAIGNS AND STORES

If you're looking for more reasons for success then Carina points to the fact that KappAhl is good at thinking through collections and campaigns all the way out into the stores. At the design stage designers think about specific campaigns and how the clothes should be presented in the stores. This is to provide customers with inspiration and to make it easy for them to find matching combinations.

Carina also says that accessories are becoming more important to complete the outfits and create the right look. KappAhl is now making a serious effort to further develop this area. It's not only a matter of expanding the range, but also to offer a wider selection within the product category.

BUSINESS AREA MEN

Stronger positions

The Men business area is continuing to strengthen its position on the market with inspirational clothes and clear concepts. The business area accounted for 16.7 per cent of all sales in 2005/2006. Fashion trends meant that classic fashion and jeanswear sold well, which are areas where KappAhl is strong. On the other hand more formal fashion has had a tougher time.

KappAhl's menswear is sold under the brands U.S. Polo Association, Madison Avenue, Redwood and the underwear brand Body Zone. The grouping makes a clear distinction between more formal, classic fashion and jeans and casual wear. During the year U.S. Polo Association has clearly gained inspiration from its roots on the US east coast, both in terms of design and colour, which has proven to be successful and further strengthened the brand.

The concepts should always inspire customers so that they can combine and match their wardrobe in the store. The business area's target group is KappAhl women's men, in other words men between 30 and 50. This is a target group that knows what it wants and who in recent years has become more fashion-conscious. Many men are a little more daring than they used to be.

DEFERRED PURCHASES AND FEWER CLEARANCE SALES

Something that's worked well for the business area is the decision to buy in garments later in the season. An example is that KappAhl continued to buy in summer clothes very late in the season, thereby succeeding in keeping sales prices up and avoiding unnecessary clearance sales. An important explanation to the success is that men buy more for need than on whim, shorts when the weather gets warm and a winter coat when it starts to get cold.

"It's obviously a question of timing when we buy in garments on the season overlap, but we have succeeded and thereby held up sales. Men defer their purchases during the season and this is proved because we have clearance sales a little later for men. But we are seeing signs that men's purchase patterns are getting closer to that of women's," says business area manager Thommy Bäcklin.

REVIVED BODY ZONE

From previously being a little neglected the Body Zone underwear collection has turned a new leaf and started to take market shares. The reasons for success include the restart carried out last year. The entire collection has been revamped, from design of the garments and packaging to how the goods are presented in store. Body Zone is still part of the base-range but underwear has been given a wider range of colours and designs – an investment that has proved very successful.

"Underwear in bolder colours and prints have sold extremely well throughout the year and have been bought by men in their twenties all the way up to men in their sixties," says Thommy Bäcklin.

REDWOOD® OUTDOOR · SPORTSWEAR

Practical and comfortable clothes adapted for a relaxed but good-looking style for leisure and work.

BZ BODY ZONE®

Underwear, socks, night clothes and swimwear.

U.S. POLO ASSN. SINCE 1890

The U.S. Polo Association was established in 1890 and is the U.S. Polo Association's official trademark. Relaxed but well-dressed fashion with classic clothing for both work and leisure.

MADISON AVENUE

Subdued and well-dressed look with well-tailored, modern garments that follow the fluctuations in fashion concerning colour and design.


KappAhl Baby, 50-80 cl
Baby clothes for babies up to one year old.
KappAhl, 86-122 cl
Playful, comfortable clothes for girls and boys.
KappAhl, 122-170 cl
Cool, hard-wearing clothes for girls and boys.
KappAhl®
KappAhl's Disney-collection consists of: Winnie the Pooh' world (sizes 50-80 cl) and Mickey and Minnie Mouse (sizes 86-116 cl).
Disney
Everything from underwear and socks to nightwear and dressing gowns.
body zone®

BUSINESS AREA CHILDREN

Successes with new, **broader range**

The Children business area has broadened its range, taking market shares and strengthening its position on all markets. The business area was responsible for 27 per cent of the Group's sales in 2005/2006.

KappAhl's children's wear ranges from babies up to children aged 13. The clothes are sold under the KappAhl, Lab Industries, KAXS, and Disney brands, while underwear is sold under the Body Zone brand.

YOUNGER CHILDREN ARE INCREASINGLY IMPORTANT

KappAhl has always attracted older children, but has now also become really expert on babies' and small children's clothes, where we've succeeded with the range and really grown. It's important for our future growth because some groups of children fall outside our target group. Meanwhile there is a baby boom again, which is making the babies' and small children's clothes share grow.

"A fall in the birth rate meant that parents were able to spend more money on clothes for their children. KappAhl has another advantage – we concentrate on the somewhat older mothers and fathers, who spend more money on their children than younger parents," says Anna Bredberg, who has been responsible for the Children business area since 2004.

NEARING THE TOP

KappAhl places extreme demands on quality, fit, function and safety of its children's clothes. Every garment is tested by children and quality tested carefully before manufacturing starts. KappAhl has always been among the leaders in children's trousers. We distinguish ourselves by having trousers for all children, irrespective of age and body.

But we are expert at more than just trousers and we are among the leaders in terms of children's clothes in Sweden. We have climbed to third place from fourth in Norway, but we still have some way to go to be No.1. We are also in third place in Finland. We are making huge strides in Poland and Polish mothers are beginning to discover KappAhl and we are continually expanding our range in Poland, where there is a huge potential for us.

SUCCESS FOR LAB INDUSTRIES

Success for Lab Industries, launched in the spring of 2005, has continued. Lab Industries is a bold jeans brand for boys and girls between 7 and 13, that expands the range and makes it more distinct for older children. The collection contains a wide variety of jeans and tops, sweaters and accessories. Lab Industries is an exciting department in our stores, a shop-in-shop.

NEW INVESTMENT – DISNEY AND ACCESSORIES

New this year was the launch of the well-coordinated baby and children collections with Disney characters. It was the first time KappAhl had designed entire Disney collections with Minnie, Mickey and Winnie the Pooh motifs and not just individual garments. Children's clothes with animated characters have been in big demand on all KappAhl's markets. The collections were available in stores in November 2005 and have been very successful on all markets.

The result of the extra investment for accessories was seen in January 2006. We have added a number of products and also increased the range within the existing categories. There is quite simply more to choose from – more belts, more bags, etc.

"Accessories are becoming more important and the investment has been perfect," says Anna Bredberg.

kaxs®

KAXS 50-170 cl
The KAXS collection contains basic garments of extra quality that can be worn and washed often. KAXS is sold solely by KappAhl.

Lab INDUSTRIES®

Lab Industries is a trendy jeans collection for boys and girls aged 7 to 14.

KappAhl and **sustainable development**

At KappAhl we don't see any conflict between fashion and ethics and we try hard to improve the conditions of the people who make our clothes.

We sell around 50 million garments a year and we naturally want them to be manufactured under decent conditions. All our garments are manufactured by independent companies in Asia and Europe, where KappAhl is one of many buyers. Despite the fact that we don't own any factories, we are careful about checking the working conditions.

BETTER WORKING CONDITIONS AT MANUFACTURERS

It is important for us that our clothes are manufactured ethically. Since 1997 we have applied a code of conduct that manufacturers agree to follow. We are gradually adopting the guidelines worked out by the Business Social Compliance Initiative (BSCI), that we joined in 2004.

BSCI is a European collaboration between 50 or so companies, mainly in the clothing industry, who want to achieve improved working conditions in the supplier countries. This will occur through a comprehensive scheme concerning working conditions and social issues. BSCI has a joint code of conduct and database and a uniform control system. The aim is to create similar conditions for suppliers in different countries and to encourage them to independently take a more expressed responsibility for the working environment.

KappAhl has actively participated in developing the BSCI control system and code of conduct. The code describes the demands the member companies of BSCI have in terms of working environment, health and safety, child labour, wages and working hours. Suppliers accept to gradually introduce improvement measures to meet the demands. They also agree to follow that country's laws and ordinances.

KappAhl has conducted many inspections itself and has also used external auditors. Since joining BSCI audit work is performed by independent auditors. Manufacturers that meet BSCI demands qualify for competition among all member companies, which opens the way for new customer contacts. This also means that manufacturers avoid production stoppages due to many companies checking the same thing.

BSCI members agree that by the end of 2007, two thirds of purchase volumes will come from suppliers that have undergone the BSCI control. The transition to BSCI doesn't mean that we stop following up the suppliers that work according to KappAhl's former code. The idea is that these will be phased into the BSCI system.

When we start working with a new manufacturer we always visit their plant and make a first assessment of the prevailing conditions. We are actually quite alone in the industry with this. A BSCI control should be carried out within a year.

CONTINUAL ENVIRONMENTAL WORK

All business affects the environment to some degree. The aim of KappAhl's environmental work is to cut the burden on the environment, where our goods are manufactured, during transport and where they are sold. In 1999, KappAhl became the first fashion chain in the world to be certified according to ISO 14000, which is the international environmental standard.

The most environmentally critical factors concern manufacture and transport. KappAhl has strict demands on what chemicals can be used in the manufacturing process of our products and a stop list for all forbidden chemicals. Our suppliers guarantee to follow our environmental and quality demands. They also need to supply information about drainage cleaning, water and energy consumption.

One of our environmental goals is to annually increase the percentage of health and environmentally marked garments and in 2005 we achieved 16 per cent (around 7 million garments). The entire range of baby basics and basic tops for women are marked with the EU flower.

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WHAT WE´VE ACHIEVED SO FAR

- Environmentally certified (ISO 14001) since 1999.
- Demand specifications to suppliers forbidding health and environmentally dangerous chemicals.
- Chemical analyses of randomly chosen garments.
- Ban on use of PVC in raincoats and outdoor clothing since 2002.
- Regular testing of garments and accessories to check that KappAhl's products don't contain harmful additives such as phthalates in plastics.
- Constant addition of health and environmentally-marked garments (Öko-Tex and EU flower). From 7.6 per cent in 2002 to 16 per cent in 2005.
- Environmental training of all personnel.
- Own specially trained environmental auditors.
- Demand for suppliers' environmental performance.
- Environmental demands on packaging and containers.
- Participation in SIS standardisation work.
- Transport by rail and sea as much as possible.
- Distribution in and around Göteborg with gas-powered environmental truck.
- Sorting at source in stores, at the head office and distribution centre.
- Use of green electricity at the head office, distribution centre and in Swedish stores.
- Reuse or recycling of plastic clothes hangers.
- Ecological coffee and milk at the head office, distribution centre and in stores.
- Reject clothes are given to help organisations.
- Used textiles and advertising material is given to schools, daycare centres and other activities.

KAPPAHLS ENVIRONMENTAL POLICY

We recognise our social and environmental responsibility. Our actions spare the environment and we economise in the use of natural resources. This means that:

- Every employee shows environmental consideration in their decisions
- We work on constant improvements in association with our customers and suppliers
- We meet legal and regulatory requirements with sound margins
- We have an open communication concerning our environmental work.

KAPPAHL APPROVED BY ROBUR

After an analysis of KappAhl's sustainability work Robur has approved KappAhl as an investment object for all its ethics funds, including the spearhead fund Ethics and Environmental Fund. Robur points out that KappAhl is continuing with its improvement scheme, despite the transition to BSCI and the fact that KappAhl carries out in-house, preliminary inspections before a new supplier can start manufacturing garments for the company.

READ MORE...

You can read more about our sustainability efforts in the Fashion and Ethics publication available for download at www.kappahl.com

WE LISTEN

We don't want to sell goods that can be seen as offensive. We therefore have detailed policies concerning various product groups as support for our purchasers and designers. We don't use real fur in any of our garments and our children's clothes should not hint towards sex, our products should not be associated with war, terrorism, racism, drugs or occultism.

We also demand that leather, feathers and down should come from animals specifically reared for meat production.

The most environmentally burdensome part of the business is transport. To reduce the environmental impact, goods are transported in the best way for the environment. From manufacturing countries it is common for our goods to be transported by sea, and in Sweden and Norway they are transported by train. Trucks are only used for the final link to the stores. In the Göteborg area, a gas-powered truck is used.

All employees undergo environmental training. We also have our own, trained environmental auditors that follow up our internal work.

In stores, distribution centre and head office we work with sorting at source. We use green electricity at all sites in Sweden.

QUALITY IN THE FULL SENSE OF THE WORD

KappAhl provides its customers with value-for-money products, a term that means the right quality at the right price. A number of the tests carried out are therefore performed prior and during production. Materials and accessories are tested before the garment is produced.

Accessories and accompaniments such as zips, buttons and bra under-wires are tested for nickel. KappAhl follows the EU's nickel directive, where limits have been set for how much nickel can be used. Regular random checks are performed during production, whereby the garments are inspected and wash-tested for colourfastness, shrinkage and abrasion resistance etc.

LONG-TERM SPONSORSHIP

KappAhl prioritises humane and environmental areas for sponsorship and prefers long-term projects with clear targets. KappAhl's sponsorship committee decides what projects to be involved with.

KappAhl joined the Hunger project in 2004, whose aim is to reduce hunger in the world by helping people in need to help themselves. Children can suffer in many different ways. In the Nordic region bullying and various kinds of assault are reality for far too many children and young people. We have supported BRIS, Children's Right in Society in Sweden since autumn 2004. In Norway we work with the Red Cross and in Finland with the Mannerheim League for Child Welfare, which operates similarly to BRIS.

Our stores and offices donate rejected clothes to well-renowned local help organisations. In Sweden, most donated clothes go to Erikshjälpen.

HELP ORGANISATIONS WE SUPPORT

www.bris.se
www.redcross.no
www.erikshjalpen.se
www.hungerprojektet.se
www.mll.fi

Motivated **employees** are the recipe for success

It's KappAhl's 3,700 employees that drive the company's development forward.

KappAhl is an attractive workplace, which has been proved by the employee survey carried out every year as well as the many applications received. Things can always improve and it is an ever continuous process to create a stimulating working environment.

DISTINCT BUSINESS CULTURE

An important part of a good working environment is the culture that influences a company. In spring 2005 we established a number of value words that we would like to permeate KappAhl and that should lead to us realising our vision. These are: **Courage, commitment and the will to win, simplicity, clarity** and **pace.** Business culture training and what it stands for was carried out at all workplaces.

We look for simplicity in everything we do. Distinction simplifies our day-to-day and makes aims more visible. This also means that we concentrate on the most important aspects with focus on the customer and an ability to disregard other aspects. Quickly going from word to deed is crucial for our success. We act forcefully and quickly – quicker than our competitors, and a will to win means that we need to toughen up without losing our ability to be humble. We are already good, but we can't relax in terms of success, but must work hard so we can together become winners.

CAREER DEVELOPMENT IS THE FOUNDATION FOR PROGRESS

The basis of every employee's progress in the company is the career development talks held with managers at least once a year. During the talks manager and employee discuss how the individual perceives their working situation, what requirements and expectations each have for future development. The career development talks are also important for managers. To help them there is an instruction book "Dialogue & development" available. The talks should lead to individual development plans that should be documented by both parties.

We invest in a number of training courses every year to further strengthen our employees' skills and increase KappAhl's competitive strength as a company.

New employees undergo introduction where KappAhl is presented, as well as its business culture and other important information such as security and policies.

Training includes store manager training for all store managers. This started in 2004 and consists of various blocks where management and business practices are central areas. The training is the same for all store managers in the Group.

The management development programme for new managers trains sale assistants and display assistants from Sweden, Norway and Finland who want to take the step to become store managers. The training includes leadership, business practices, finance and personnel policies.

Our management development programme for managers and specialists at our head office and international offices is called Capacity. The aim of the programme is to strengthen managers in their role and meanwhile create a united front for important issues.

The display assistants have an important function in terms of ensuring that stores are inspiring and display clothes uniformly. KappAhl's display assistants training allows sales assistants wishing to become display assistants to study displays, lighting and window display, in turns with store economics and communication.

We also have a number of specialist training schemes including a training programme for buyers in negotiation techniques. Most training is performed internally at KappAhl and provides participants the opportunity of creating a strong internal network.

KEEP-FIT ACTIVITIES AND THE WORKING ENVIRONMENT

One of KappAhl's challenges is to cut sick leave. In 2005/2006 there was a 7.0 per cent rate of sick leave in Sweden, of which 2.4 per cent short-term sick leave and 4.6 per cent long-term sick leave. This is an improvement compared to last year.

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Working environment issues are discussed in forums such as the working environment council in Sweden, consisting of representatives from stores, distribution centre and head office. To contribute towards well-being KappAhl provides a keep-fit allowance in all countries. Employees wanting to quit smoking are provided with anti-smoking products.

SAFETY AND FIRE, WORKING CONDITIONS AND THE ENVIRONMENT

During the financial year we took a joint hold on Safety & Fire, Working Conditions and Environment. The aim is to improve systematic work in creating better and safer workplaces and increase employees' ability to affect their work situation.

Employee participation is important and at workplace meetings issues were discussed that are really important to the individual workplaces, such as the threats and risks that exist.

Defined action plans are produced and are then compiled centrally and comprehensive efforts and training needs are identified. In addition we train auditors internally, who then follow up work and annually perform an audit of chosen stores.

EQUALITY AND DIVERSITY

The basic attitude at KappAhl is that every employee should feel content and motivated to do a good job. The fashion industry is traditionally dominated by women, which is also the case at KappAhl. When nominating people to a training programme or managerial position we always try to have a balance between men and women.

In the same way it's important for us at KappAhl to mirror the society we work in. We therefore look for diversity and that everyone should have the same opportunities, irrespective of ethnic background, faith or sexual preference.

KAS – MEASURES EMPLOYEE ATTITUDES

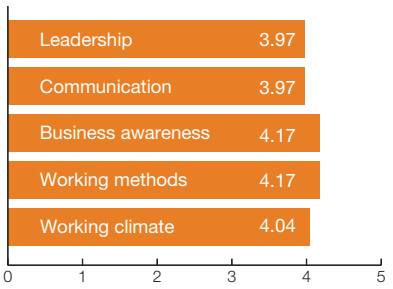
KappAhl regularly performs attitude surveys that together with career development talks are a good instrument for following up how employees feel and like their work. In the past it was the Satisfied Employee Index (NMI) tool, but since autumn 2005 the KappAhl Attitude Survey (KAS) has been used. Compared to NMI there are more issue areas with fewer questions. The first KAS showed that management, work forms and contentment still had high marks.

Since 2002 KappAhl annually produces an employee year-end report where KappAhl as a workplace is highlighted and where the initiatives carried out during the year are explained.

	2005/2006	2004/2005
Average number of employees	2,589	2,469
Number of employees at year-end	3,703	3,631
Number of women, %	91.0	91.2
Number of women in senior positions, %	79.4	79.3
Sick leave, %, KappAhl Group Sweden	7.0	8.4
Cost for keep-fit activities per employee, SEK KappAhl Group Sweden	761	1,269*
Employee turnover rate, % KappAhl Group Sweden	8.0	3.9
Training courses, hours per employee	10	15

*8 months

KAPPAHL ATTITUDE SURVEY



KappAhl´s **shares**

KappAhl's shares have been quoted on the Stockholm Stock Exchange's O list since 23 February 2006. The listing price was SEK 56 per share.

Shares are traded under the KAHL ticker. A round lot consists of 100 shares. The shares on the Stockholm Stock Exchange are divided by industry index. KappAhl is included in Stockholm Stock Exchange's index for rarely bought commodities, the OMX Stockholm Consumer discretionary.

The share capital in KappAhl on 31 August was SEK 10,720,000 divided between 75,040,000 shares. The quotient value is SEK 0.14 per share. One share entitles the holder to one vote. All shares have equal rights to a share of KappAhl's assets and profits.

LISTING THE COMPANY

The reason that KappAhl became a listed company was because the owners Nordic Capital and Accent Equity, as part of their investment strategy, wanted to spread ownership by selling off ownership over time. KappAhl's board and shareholders decided to carry out an ownership spread by selling existing shares and meanwhile applying for a quotation on the Stockholm Stock Exchange's O list.

The ownership spread offer originally covered 28,750,000 shares, equivalent to 38.3 per cent of shares in the company. There was major interest from institutional investors with strong demand from many institutions. The offer was over subscribed by around seven times.

It was announced in March that an over-allocation option would be utilised, which meant that the offer would

DIVISION OF OWNERSHIP SIZE

As on 31 August 2006

Shareholding	Number of shareholders	Number of shares	Shareholding, %
1–500	4,875	849,664	1.1
501–1,000	746	686,507	0.9
1,001–5,000	717	1,880,332	2.5
5,001–10,000	127	964,004	1.3
10,001–15,000	37	484,820	0.7
15,001–20,000	16	306,910	0.4
20,001–	145	69,867,763	93.1
	6,663	**75,040,000**	**100.0**

GEOGRAPHIC DIVISION OF SHAREHOLDING

As on 31 August 2006

SHARE CAPITAL PERFORMANCE

Year and transaction	Change to number of shares	Change in share capital, SEK	Total number of shares	Share capital, SEK
2004 Formed	1,000	100,000	1,000	100,000
2004 Split 100:1	99,000	–	100,000	100,000
2005 New share issue 1	9,900,000	9,900,000	10,000,000	10,000,000
2005 New share issue 2	366,000	366,000	10,366,000	10,366,000
2005 New subscription of shares (warrants)	354,000	354,000	10,720,000	10,720,000
2006 Split 7:1	64,320,000	–	75,040,000	10,720,000

cover a total of 32,500,000 shares, equivalent to 43.3 per cent of the capital and voting rights in the company.

MARKET GROWTH

From the time of the market introduction to the end of the financial year the Stockholm Stock Exchange's broad OMXS index fell by 0.2 per cent. KappAhl's shares fell by 18 per cent from an introduction price of SEK 56 to SEK 46.2 on 31 August. The highest price paid was SEK 67 on 30 March 2006 and the lowest price paid was 43.5 on 18 July 2006. At the end of the financial year KappAhl's market value was SEK 3,467 million and the p/e ratio estimated on the profit for the year was 11.

Between 23 February 2006 and 31 August 2006 a total of 45.3 million KappAhl's shares were traded at a value of SEK 2.6 billion. The total traded was equivalent to 60.3 per cent of the average number of shares. An average of 158 trades per day were made in KappAhl's shares during the year. The average trade was 2,203 shares.

DIVIDEND POLICY AND PROPOSED DIVIDEND

The KappAhl board has adopted a dividend policy that states that the board will propose to the AGM a dividend equivalent to 50–70 per cent of the net profit for the previous financial year with respect to KappAhl's financial objectives and expected future results, financial position, cash flow, credit conditions and other factors.

The board proposes to the AGM 2006 for a dividend of SEK 2.50 (2.25) per share for the 2005/2006 financial year, equivalent to 62 per cent of the net profit for 2005/2006.

SPREAD OWNERSHIP

KappAhl had 6,663 shareholders on 31 August 2006. The biggest owner is Pegatro Limited, which is controlled equally by KappAhl's CEO Christian W. Jansson and board member Paul Frankenius.

Most shareholders own relatively small lots in the company. Of all shareholders, 76 per cent own fewer than 1,000 shares. Shareholdings registered with companies and institutional owners stood at 92 per cent and shareholdings registered with foreign investors was 80 per cent.

STOCKMARKET INFORMATION

KappAhl's information to the stockmarket and shareholders will be characterised by correctness, relevance, openness and speed.

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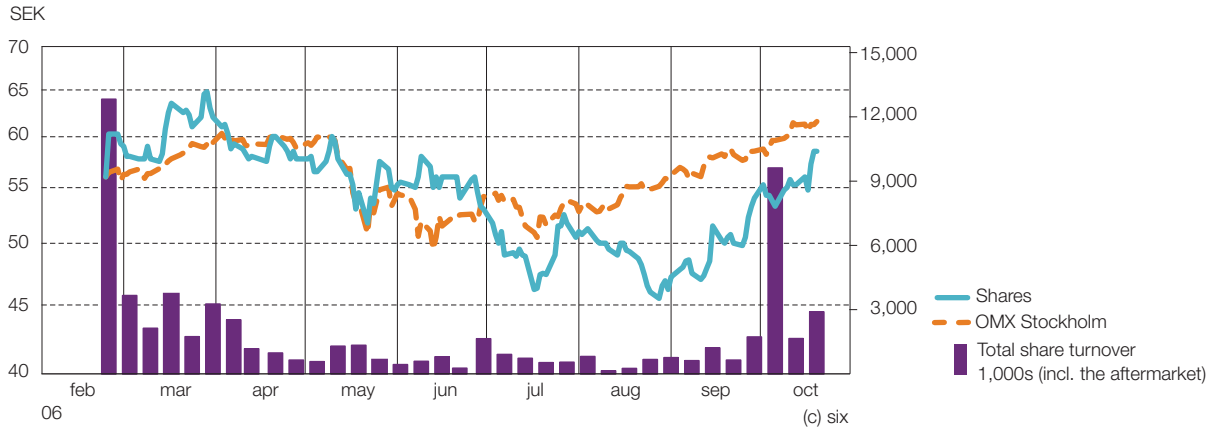
KAPPAHL´S SHARE PERFORMANCE



KappAhl's press releases, quarterly reports and annual reports are available at www.kappahl.com/ir. There is also additional information available about the company the financial development and shares and the option of subscribing to information from KappAhl.

INSIGHT INFORMATION

Trading shares in the company where you have insight is called insight trading. This trading requires the trader to report any transactions to the Swedish Financial Supervisory Authority.

KappAhl must report to the Swedish Financial Supervisory Authority the people that have insight in the company. These individuals must report their shareholding and possible changes of shareholding. Certain close physical and legal entities are also covered by this duty to report.

The main owners, board members, board secretary, auditors, Group management and certain employees are considered to have insight into KappAhl. A complete list of the people with insight is available from the Swedish Financial Supervisory Authority's website www.fi.se.

ANALYSES

KappAhl's shares are analysed by Swedish and foreign banks and fund commissioners. The following regularly monitor KappAhl:

- Carnegie
- Evli Securities
- Goldman Sachs
- Öhman Fondkommission.

THE TEN BIGGEST OWNERS

As on 31 August 2006

Name	Number of shares	Share of share capital voting rights, %
Pegatro Limited	19,096,000	25.4
Nordic Fashion S.A.R.L	14,000,000	18.7
Accent Equity 2003	6,000,000	8.0
State Street Bank	4,166,816	5.6
Morgan Stanley & Co Inc, W9	3,034,200	4.0
Okobank Oy	1,524,000	2.0
Nordea Bank S A	1,505,417	2.0
Fortis Banque Luxembourg S.A.	1,314,952	1.8
Mellon AAM Omnibus 15 %, Agent F ABN AMRO G C	897,003	1.2
BNY GCM Client Accounts (E) ISG	878,600	1.2

KEY RATIOS

As on 31 August 2006

Amounts in SEK unless otherwise stated	
Share related key ratios	
Earnings per share	4.02
Shareholders' equity per share	5.49
Cash flow from current activities per share	6.40
Dividend per share (proposed)	2.50
Dividend share, %	62.0

Amounts in SEK unless otherwise stated	
Price related data	
Price	46.2
Market value, SEK m	3,467
P/E ratio, multiple	11
Direct yield, %	5.4
Price per shareholders equity, %	842
Number of shares	
At end of financial year	75,040,000
Average	75,040,000

Directors´ report

Because of the change in the accounting period from the calendar year to a shortened financial year, the comparable figures in the income statement cover an accounting period of eight months, i.e. the period from 1 January to 31 August 2005. See also Note 1.

Group

The Group runs business activities in retail sales of ladieswear, menswear and childrenswear. In addition to the parent company, KappAhl Holding AB, the Group includes the wholly-owned company KappAhl AB, the sales companies in Norway, Finland and Poland, and a purchasing company in China.

The Group also has branch offices in Turkey, Lithuania, Bangladesh and India.

The company in China is responsible for making contact with new suppliers and overseeing production and delivery in the Far East. The sales companies are responsible for retail sales in their respective countries. Branch offices are responsible for providing support for purchasing operations and quality control in their respective markets. See the full list of companies in the Group in Note 28.

At the beginning of the 2005/2006 financial year, the KappAhl Holding AB Group had 242 stores and at the end of the year, 260 stores. During the course of the year, 20 new stores were opened and two were closed.

Through a financial leasing agreement, the Group rents the headoffice and distribution centre in Mölndal where all of the Group's clothing is prepared for delivery to the various stores.

Parent company

The parent company provides certain group-wide services.

Ownership

As of 31 August 2006 the ten largest shareholders were as indicated in the table below:

Financial performance

The Group

KappAhl's net sales for the period, excluding VAT, amounted to SEK 4,217 million (3,945), an increase of 6.9 per cent compared with the previous 12-month period. The increase was due to exchange rate differences (primarily against NOK) of 2.2 per cent, new and closed stores, 5.0 per cent, and the develop-

NO. OF STORES PER COUNTRY

	31 Aug 2006	31 Aug 2005	31 Aug 2004	31 Dec 2004
Sweden	130	125	122	124
Norway	81	74	72	72
Finland	36	32	30	30
Poland	13	11	9	9
Total	**260**	**242**	**233**	**235**

OWNERSHIP

	No. of shares	Capital share, %	Volume share, %
Pegatro Ltd*	19,096,000	25.4	25.4
Nordic fashion S.á.r.l.	14,000,000	18.7	18.7
Accent Equity 2003	6,000,000	8.0	8.0
State Street Bank	4,166,816	5.6	5.6
Morgan Stanley & Co Inc, w9	3,034,200	4.0	4.0
Okobank OY	1,524,000	2.0	2.0
Nordea Bank SA	1,505,417	2.0	2.0
Fortis Banque Luxembourg SA	1,314,952	1.8	1.8
Mellon Aam Omnibus 15%, Agent F ABN Amro GC	897,003	1.2	1.2
BNY GCM Client Accounts (E) ISG	878,600	1.2	1.2
Other owners	22,623,012	30.1	30.1
Total	**75,040,000**	**100.0**	**100.0**

*) See Note 27

ment of sales in comparable stores, –0.3 per cent. The overall sales trend is thus explained primarily by our having 18 more stores open in the financial year compared with the previous 12-month period.

During the financial year, the sale of cosmetics continued to be phased out and was fully closed down starting with the final quarter of the financial year. Net sales of cosmetics amounted to SEK 38 million (97), which affected sales in comparable stores by –1.5 percent. Consequently, sales of clothing in comparable stores have increased by 1.2 percent.

During the year the company won a dispute in Norway concerning customs duties, which had a positive effect of SEK 22 million on gross profit. The decision was confirmed after the end of the financial year.

The Group's operating profit for the financial year reached SEK 530 million, representing an operating margin of 12.6 per cent (7.1). Gross profit for the same period was SEK 2,540 million, giving a gross margin of 60.2 per cent (59.2). By focusing sharply on profitability, KappAhl has continued to improve its gross margin without raising prices. The two key factors behind the high gross margin are better purchasing and good stock discipline. KappAhl's success is based on selling fashion that gives value for money for many people.

The pace of expansion continues to accelerate. In the past financial year we opened 20 new stores and our goal for the coming year remains unchanged at around 15–20 new stores. As of 31 August there are contracts for an additional 26 stores, of which two opened in September.

The Nordic countries are seeing a strong development in GDP compared with the rest of Europe. This has resulted in a strong development of private consumption and, consequently, a strong development of demand for clothing. KappAhl is market leader in retail store clothing sales in Sweden, and has advanced from fifth place a year ago to third place in Norway. This information is based on independent statistics from GfK.

Net financial items for the financial year include costs of SEK 40 million for the stock exchange listing and a restructuring of the Group's financing. Both items are one-offs. The new financing means improved interest rate and amortisation terms for the future.

Parent company

The parent company's net sales during the period were SEK 15 million (0) and the loss after financial items amounted to SEK 106 million (+1,035).

Events of significant importance that occured during the financial year

KappAhl Holding AB Group

The focus of our offer to customers is women aged 30–50 and their families – the customer group that has been the most faithful to KappAhl over the years. In the past year we continued to adapt our activities to this primary group. The result was several successful campaigns that produced good sales results.

During the financial year we continued to press purchasing prices. This helped to boost our gross margin. We need to do this to continue making good offers to our customers and ensure strong finances over the long term for the Group.

During the year, capital expenditures have been concentrated on maintaining existing and newly-opened stores. Apart from our range of products, the design and atmosphere are the most important factors in creating a pleasant experience, which in turn brings the customer back. The capital expenditures in store maintenance is an important factor in ensuring the Group's long-term earning capacity.

KappAhl's shares were listed on the Stockholm Stock Exchange's O-list on 23 February 2006. In conjunction with the listing, greater diversity in ownership of the company's shares was achieved via the sale of existing shares. The company's costs for the listing process totalled SEK 20 million and were reported as a part of financial costs.

Financial instruments and risk management

The aim of the Group's currency policy is to minimise the risk of negative effects on earnings and increase the predictability of future earnings. This is achieved by hedging the subsidiaries' revenues. The Group's goods purchases are also hedged including future goods flows, which are hedged 3–9 months forward. Hedging is carried out using a combination of forward contracts and currency options. A substantial portion of the Group's goods purchasing is done in US dollars which makes the business sensitive to changes in the dollar exchange rate. More information is available in Note 23.

Financing

All financing and investment of funds is done through KappAhl Holding AB. The KappAhl Holding Group's liquid assets amounted to SEK 72 million on 31 August 2006, compared to SEK 83 million on 31 August 2005.

The company's financing is primarily in the form of bank loans.

Accounting principles

Starting from 1 January 2005, the Group has adopted the International Financial Reporting Standards (IFRS), which have been approved by the European Commission.

Capital Expenditure

KappAhl Holding AB Group

The year's net capital expenditures amounted to SEK 237 million. Most of this amount pertains to capital expenditures in existing and new stores.

Parent company

No investments were made during the year in KappAhl Holding AB. The previous year's net investments consisted of a payment of SEK 40 million, the final payment for the acquisition of the KappAhl AB Group.

Foreign offices
The Group has a number of offices in other countries that support the purchasing operation. The offices in Lithuania and Turkey belong to KappAhl AB, while the offices in China, Bangladesh and India belong to KappAhl Far East Ltd.

Future expectations

KappAhl Holding AB Group
Consumer spending is expected to continue to increase in the year ahead. This is an important factor for KappAhl and for the retail trade in general. At the same time, it is essential to keep control of purchasing prices and ensure that customers like our products. The Group also aims to open 15–20 new stores per year. In all, the conditions are considered favourable for the Group to continue to enjoy strong earnings.

Corporate governance
See the corporate governance report on page 74.

Proposed appropriation of the company´s profits

The Board of Directors and the CEO propose that the disposable profits of SEK 957,856,615 be appropriated as follows:

COMPANY EARNINGS

	SEK
Dividend (75,040,000 x 2.50 SEK)	187,600,000
Brought forward	770,256,615
Total	**957,856,615**

The financial statements were approved for publication by the parent company's Board of Directors on 8 November 2006.

For information about the company's earnings and financial position, please refer to the income statement, balance sheet and the notes that follow.

Income statement – Group

Amounts in SEK million	Note	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005
Net sales	2, 3, 4	4,217.0	2,387.0
Cost of goods sold		– 1,676.7	– 973.0
Gross profit	7	**2,540.3**	**1,414.0**
Selling expenses		– 1,862.8	– 1,167.5
Administrative expenses		– 147.1	– 76.6
Operating profit	3, 5, 6, 7, 19, 24	**530.4**	**169.9**
Financial income		1.8	2.3
Financial expenses		– 113.5	– 98.4
Net financial items	8	**– 111.7**	**– 96.1**
Profit before tax		**418.7**	**73.8**
Tax	9	– 116.7	– 20.8
Profit for the year		**302.0**	**53.0**
Earnings per share			
Before dilution (SEK)		4.02	0.71
After dilution (SEK)		4.02	0.71

Balance sheet – Group

Amounts in SEK million	Note	31 Aug 2006	31 Aug 2005
ASSETS	25		
Fixed assets			
Intangible fixed assets	10	1,349.1	1,344.1
Tangible fixed assets	11	662.0	618.3
Long-term receivables	13	10.7	3.5
Deferred income tax assets	9	123.0	195.3
Total fixed assets		**2,144.8**	**2,161.2**
Current assets			
Inventories	14	557.7	589.9
Accounts receivable		10.7	4.8
Prepaid expenses and accrued income	15	80.9	67.5
Other receivables	13	13.4	34.5
Cash and cash equivalents	16	72.3	83.2
Total current assets		**735.0**	**779.9**
TOTAL ASSETS		**2,879.8**	**2,941.1**

Amounts in SEK million	Note	31 Aug 2006	31 Aug 2005
SHAREHOLDERS' EQUITY			
Share capital		10.7	10.4
Other contributed equity		205.1	197.0
Other reserves		13.5	26.4
Retained earnings		182.9	49.7
Total equity		**412.2**	**283.5**
LIABILITIES			
Long-term liabilities			
Finance lease loans	11	162.7	173.6
Long-term interest-bearing liabilities	17, 23	1,144.0	1,335.0
Other long-term liabilities (not interest-bearing)	21	—	11.2
Provisions for pensions and similar obligations	19	63.6	73.8
Other provisions	20	9.2	50.9
Deferred income tax liabilities	9	227.7	220.9
Total long-term liabilities		**1,607.2**	**1,865.4**
Current liabilities			
Finance lease loans	11	22.3	22.3
Short-term interest-bearing liabilities	17	56.0	3.1
Trade payables		274.1	281.1
Current income tax liabilities	9	0.2	28.1
Other liabilities	21	97.3	72.9
Accrued expenses and deferred income	22	192.1	221.0
Overdraft facility	16	218.4	163.7
Total current liabilities		**860.4**	**792.2**
Total liabilities		**2,466.5**	**2,657.6**
Total equity and liabilities		**2,879.8**	**2,941.1**

Information on the Group's pledged assets and contingent liabilities, see Note 26.

Statements of changes in equity – Group

	Attributable to equity holders of the parent company					
			Other reserves			
Amounts in SEK million	Share-capital	Other contributed funds	Hedging-reserve	Translation-reserve	Retained earnings	Total shareholders´ equity
Opening equity, 1 Jan 2005	**10.0**	**190.0**			**– 3.3**	**196.7**
Cash flow hedging, after tax [1]			14.7			14.7
Translation differences				11.7		11.7
Profit for the year					53.0	53.0
New share issue	0.4	7.0				7.4
Closing equity, 31 Aug 2005	**10.4**	**197.0**	**14.7**	**11.7**	**49.7**	**283.5**

	Attributable to equity holders of the parent company					
			Other reserves			
Amounts in SEK million	Share-capital	Other contributed funds	Hedging-reserve	Translation-reserve	Retained earnings	Total shareholders´ equity
Opening equity, 1 Sep 2005	**10,4**	**197,0**	**14,7**	**11,7**	**49,7**	**283,5**
Dividend					– 168,8	– 168,8
Cash flow hedging, after tax [1]			– 2,3			– 2,3
Translation differences				– 10,6		– 10,6
Profit for the year					302,0	302,0
New share issue	0,3	8,1				8,4
Closing equity, 31 Aug 2006	**10,7**	**205,1**	**12,4**	**1,1**	**182,9**	**412,2**

[1] See also Note 1 on the effects on accounting according to IAS 39

Cash flow statement – Group

Amounts in SEK million	Note	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005
Operating activities	29		
Profit after financial items		418.7	73.8
Adjustment for non-cash items		121.4	111.0
Income tax paid	9	– 64.3	– 4.1
Net cash generated from operating activities before changes in working capital		**475.8**	**180.7**
Cash flow from changes in working capital			
Increase (–)/Decrease (+) in inventory		32.2	– 113.7
Increase (–)/Decrease (+) in operating receivables		– 1.8	16.5
Increase (+)/Decrease (–) in operating liabilities		– 32.7	22.1
Net cash generated from operating activities		**473.5**	**105.6**
Cash flow from investing activities			
Acquisition of tangible fixed assets		– 206.1	– 157.4
Acquisition of intangible fixed assets		– 24.1	– 11.4
Acquisition of subsidiaries, net effect on liquidity		—	40.0
Acquisition of financial assets		– 7.2	– 3.0
Net cash used in investing activities		**– 237.4**	**– 131.8**
Cash flow from financing activities			
Dividend paid		–168.8	—
New share issue		8.4	7.2
Repayment of borrowings		– 84.3	– 215.0
Net cash used in financing activities		**– 244.7**	**– 207.8**
Cash flow for the year		– 8.6	– 234.0
Cash at the beginning of the year		83.2	320.3
Currency translation effect		– 2.3	– 3.1
Cash and cash equivalents at the end of the year	16	**72.3**	**83. 2**

Income statement – Parent company

Amounts in SEK million	Note	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005
Net sales		15	—
Cost of goods sold		—	—
Gross profit		**15**	**—**
Other operating expenses		– 8.4	– 0.6
Operating profit/loss	5, 6, 7	**6.6**	**– 0.6**
Profit/loss from financial items:			
Profit/loss from participations in subsidiaries		—	1,122.9
Other interest income and similar profit/loss items		—	0.7
Interest expense and similar profit/loss items	8	– 112.9	– 87.8
Profit/loss after financial items		**– 106.3**	**1,035.2**
Profit/loss before income tax		**– 106.3**	**1,035.2**
Tax	9	29.8	24.5
Profit/loss for the year		**– 76.5**	**1,059.7**

Balance sheet – Parent company

Amounts in SEK million	Note	31 aug 2006	31 Aug 2005
ASSETS	25		
Fixed assets			
Financial fixed assets			
Participations in Group companies	28	2,971.1	1,271.1
Deferred income tax assets	9	1.1	2.7
Total financial fixed assets		**2,972.2**	**1,273.8**
Total fixed assets		**2,972.2**	**1,273.8**
Current assets			
Current receivables			
Receivables from Group companies	12	195.7	1,789.3
Deferred tax asset	9	—	1.3
Other receivables		15.0	—
Prepaid expenses and accrued income	15	4.7	23.5
Total current receivables		**215.4**	**1,814.1**
Cash and cash equivalents		—	—
Total current assets		**215.4**	**1,814.1**
TOTAL ASSETS		3,187.6	3,087.9

Amounts in SEK million	Note	31 Aug 2006	31 Aug 2005
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital (10,720,000 at par value of SEK 1, 10,320,000 shares at par value of SEK 1 previous year)		10.7	10.4
Statutory reserve		205.1	—
Share premium reserve		—	197.0
Non-restricted equity			
Retained earnings		1,034.4	52.9
Profit/loss for the year		– 76.5	1,059.7
Total equity		**1,173.7**	**1,320.0**
Long-term liabilities			
Liabilities to credit institutions	18	1,144.0	1,335.0
Deferred income tax liability	9	2.6	—
Other liabilities	21	—	11.2
Total long-term liabilities		**1,146.6**	**1,346.2**
Current liabilities			
Trade payables		—	3.3
Liabilities to credit institutions	18	56.0	—
Liabilities to Group companies		582.7	416.4
Other liabilities	21	2.2	—
Accrued expenses and deferred income	22	8.0	2.0
Overdraft facilities	16	218.4	—
Total current liabilities		**867.3**	**421.7**
TOTAL EQUITY AND LIABILITIES		3,187.6	3,087.9

Pledged Assets and Contingent Liabilities – Parent Company

Amounts in SEK million	Note	31 Aug 2006	31 Aug 2005
Pledged assets	26		
Shares in subsidiaries		1,271.1	1,271.1
Contingent liabilities	26	None	None

Statement of changes in equity – Parent company

	Restricted equity		Non-restricted equity			
Amounts in SEK million	Share-capital	Share premium-reserve	hedging-reserve	Retained earnings	Year´s profit/loss	Total equity
Opening equity, 1 Jan 2005	**10.0**	**190.0**		**0.1**	**– 3.4**	**196.7**
Cash flow hedging, after tax			– 6.8			– 6.8
Currency translation differences				– 0.1		– 0.1
Restatement of previous year's profit/loss				– 3.4	3.4	0.0
Year's profit/loss					1,059.7	1,059.7
Group contributions received				87.7		87.7
Tax on group contributions received				– 24.6		– 24.6
New share issue	0.4	7.0				7.4
Closing equity, 31 Aug 2005	**10.4**	**197.0**	**– 6.8**	**59.7**	**1,059.7**	**1,320.0**

	Restricted equity			Non-restricted equity			
Amounts in SEK million	Share-capital	Statutory reserve	Share premium reserve	Hedging-reserve	Retained earnings	Year´s profit/loss	Total equity
Opening equity, 1 Sep 2005	**10.4**		**197.0**	**– 6.8**	**59.7**	**1,059.7**	**1,320.0**
Dividend						– 168.8	– 168.8
New share issue*	0.3		8.1				8.4
Currency translation differences							
Restatement of previous year's profit/loss					890.9	– 890.9	0.0
Cash flow hedging, after tax				13.5			13.5
Year's profit/loss						– 76.5	– 76.5
Group contributions received					107.0		107.0
Tax on group contributions received					– 29.9		– 29.9
Transfer to statutory reserve		205.1	–205.1				
Closing equity, 31 Aug 2006	**10.7**	**205.1**	**0.0**	**6.7**	**1,027.7**	**– 76.5**	**1,173.7**

*See table of development of no. of shares and share capital, below.

Development of no. of shares and share capital

	No. of shares	Par value
1 Jan 2005	10,000,000	10,000,000
New share issue, January 2005	366,000	366,000
Subscription of new shares in December 2005	354,000	354,000
Split 7:1	64,320,000	—
Closing amount, 31 Aug 2006	**75,040,000**	**10,720,000**

Cash flow statement – Parent company

Amounts in SEK million	Note	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005
Operating activities	29		
Profit/loss after financial items		– 106.3	1,035.2
Adjustment for non-cash items		0.1	– 1,122.9
Net cash generated from operating activities before changes in the working capital		**– 106.2**	**– 87.7**
Cash flow from changes in the working capital			
Increase (–)/Decrease (+) in operating receivables		23.4	– 8.0
Increase (+)/Decrease (–) in operating liabilities		4.9	136.0
Net cash generated from operating activities		**– 77.9**	**40.3**
Cash flow from investing activities			
Adjustment of purchase price		—	40.0
Net cash generated from investment activities		**—**	**40.0**
Cash flow from financing activities			
Dividend paid		– 168.8	–
New share issue		8.4	7.2
Raised loan		238.3	—
Repayment of borrowings		—	– 134.0
Net cash used in financing activities		**77.9**	**– 126.8**
Cash flow for the year		0.0	– 46.5
Cash at the beginning of the year		0.0	45.9
Currency translation effect		0.0	0.6
Cash and cash equivalents at the end of the year	16	**0.0**	**0.0**

Notes to the financial reports

1 ACCOUNTING PRINCIPLES

Compliance with standards and laws

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the European Commission for use within the EU.

Starting from this financial year the Group is implementing the regulations regarding Segment reporting in IAS 14 and those regarding Earnings per share in IAS 33.

The parent company uses the same accounting principles as the Group, except in the cases that are indicated below under the heading "Parent company's accounting principles." The deviations between the parent company's and the group's accounting principles are due to restrictions imposed by the Annual Accounts Act and the "Tryggandelagen" affecting the parent company's ability to apply IFRS, and in some cases for tax reasons. Furthermore, the Swedish Financial Accounting Standards Council's recommendation RR32 Reporting for Legal Entities has been applied.

Basis on preparation of the parent company´s and the group´s financial statements

The functional currency used by the parent company in its operations is Swedish kronor and this is also the reporting currency of the parent company and the Group. This means that the financial statements are presented in Swedish kronor. All amounts, unless otherwise indicated, are rounded to the nearest million kronor. Assets and liabilities are recognised at their historic acquisition values, with the exception of financial assets and liabilities, which are stated at their fair value. Financial assets and liabilities stated at their fair value consist of derivative instruments, liquid funds, loans, and liabilities and receivables in foreign currency.

In order to present the financial statements in accordance with IFRS, it is necessary for the company's corporate management to make assessments, estimations and assumptions that affect the application of the accounting principles and the stated amounts of assets, liabilities, income and expenses. These estimations and assumptions are based on past experience and a number of other factors that are deemed appropriate under the present circumstances. The result of these assessments and assumptions are subsequently used to determine the recognised amounts of assets and liabilities that could not otherwise be clearly determined using other sources. The actual outcome may deviate from these assessments and assumptions.

The assessments and assumptions are reviewed on a regular basis. Changes in assessments are reported in the period the changes are made if the changes only impact that period, or in the period the changes are made and future periods if the changes impact both the current period and future periods.

Assessments made by corporate management in connection with the application of IFRS that have a significant impact on the financial reports and estimations made that may cause significant adjustments to the financial reports of the following year, are described in more detail in Note 31.

The Group's accounting principles have been applied consistently in all reporting and consolidation of subsidiaries.

Changes in accounting principles

Starting from this financial year the Group is implementing the regulations regarding Segment reporting in IAS 14. A segment is a part of the Group identifiable for accounting purposes and which supplies goods within a specific economic location (geographic area) and which is also exposed to risks and opportunities that differ from other segments. Segment reporting is performed in accordance with IAS 14 for the Group only.

Also during the financial year the Group has applied regulations regarding Earnings per share in IAS 33. This reporting is done in connection with the consolidated income statement.

Classification etc.

The fixed assets and long-term liabilities of the parent company and the Group essentially consist only of the amounts that are expected to be recovered or paid more than twelve months from the balance sheet date. The current assets and current liabilities of the parent company and the Group essentially consist only of the amounts that are expected to be recovered or paid within a twelve-month period from the balance sheet date.

Consolidation principles

Subsidiaries

Subsidiaries are entities over which KappAhl Holding AB has a controlling influence. Controlling influence means having the direct or indirect right to formulate a company's financial and operative strategies for the purpose of making financial gains. The purchase method of accounting is used for the acquisition of subsidiaries. The purchase method means that the acquisition of a subsidiary is regarded as a transaction by which the Group indirectly acquires the assets of the subsidiary and assumes its liabilities and contingent liabilities. The consolidated acquisition value is established through an acquisition analysis in connection with the acquisition of operations.

This analysis establishes both the acquisition value of the shares or operations, and the fair value of the identifiable acquired assets and assumed liabilities and contingent liabilities. The difference between the acquisition value of the subsidiary's shares and the fair value of the acquired assets, assumed liabilities and contingent liabilities is recorded as goodwill.

The subsidiaries' financial reports are included in the consolidated accounts from the date of their acquisition until the date the Group's controlling influence over them ceases to exist.

Foreign currency

Transactions in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities in foreign currencies are translated to the functional currency using the exchange rate prevailing at the date of the balance sheet. Translation differences that arise in connection with translation are recorded in the income statement. Translation differences on non-monetary assets and liabilities, recorded at historical purchase values, are translated at the exchange rate on the date of the transaction. Non-monetary assets and liabilities that are reported at their fair values are translated into the functional currency using the exchange rates prevailing at the time they are recognised at their fair value. The translation differences are then reported in the same way as other changes in the amounts of assets and liabilities.

The functional currency is the currency of the primary economic environment in which the company operates. The companies in the Group are the parent company and subsidiaries. The parent company's functional currency and its reporting currency is Swedish kronor. The Group's reporting currency is also Swedish kronor. The functional currency of the subsidiaries is the local currency in the each country.

Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and other consolidated surplus and deficits, are translated into Swedish kronor at the exchange rate in effect on the balance sheet date. The income and expenses of foreign operations are translated into Swedish kronor at an average rate that is an approximation of the rates at the respective transaction dates. The translation differences that arise in connection with translation of foreign operations are recorded directly to equity in the accounts as a translation reserve.

Net investment in a foreign operation

Translation differences that arise in connection with translation of a foreign net investment are recorded directly as translation reserves in equity. When a foreign operation is divested, the accumulated translated differences pertaining to the operations are realised after deduction of possible hedging in the consolidated income statement.

Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and benefits associated with ownership of the goods have been transferred to the buyer. Revenue is recognised at the actual value of the consideration received or receivable, less any discounts provided.

All sales are made on a 30-day sale-or-return basis. Revenue is recognised on the date of the sale subject to sale-or-return.

Operating expenses and financial income and expenses

Payments relating to operational leases

Payments relating to operational leasing agreements are reported in the income statement on a straight-line basis over the leasing period. Benefits received in connection with the signing of an agreement are reported as part of the total leasing expense in the income statement.

Payments relating to financial leases

Minimal leasing fees are divided into interest expense and amortisation of the outstanding liability. Interest expense is distributed over the leasing period so that each accounting period is charged with an amount that is equivalent to a fixed interest rate for reported liability during the respective period. Variable fees are expensed in the periods they arise.

Financial income and expense

Financial income and expense consists of interest income on bank balances, interest expense relating to loans and other financial items.

Financial instruments

Financial instruments are valued and recorded in the Group according to IAS 39.

Financial instrument recorded in the balance sheet include, on the assets side, accounts receivables and derivative instruments that are reported as long term receivables and other receivables. Liabilities and equity include trade payables, loan liabilities (financial leasing loans and interest-bearing liabilities on the balance sheet) and derivative instruments, which are reported as other long term and short term liabilities respectively.

Financial instruments are initially recognised at fair value on the date a derivative contract is entered into, including transaction costs for all financial instruments except for those which belong to the category financial assets, which are recognised in the income statement at fair value. Reporting thereafter depends on how the instruments are classified as follows.

The classification depends on the acquirer's intention with the acquisition of the financial instrument. KappAhl's corporate management determines how the instruments are categorised at initial recognition. KappAhl only has the following categories:

Interest-bearing liabilities and finance lease loans

Financial liabilities that are not held for trading are valued at accrued acquisition value. Accrued acquisition value is determined based on the effective interest that was calculated when the liability was originally recognised. This means that surplus and deficit as well as direct issue costs are allocated over the life of the liability.

Long-term and other receivables and other long term and short term liabilities
Derivative instruments used for hedge accounting are reported in the balance sheet under appropriate headings. All derivatives are stated at their fair value in the balance sheet. Changes in value are recognised in the income statement when fair values are hedged. In the case of cash flow hedging, changes in value are recorded in separate components of equity until the hedged item is recognised in the income statement. Hedge accounting is described in more detail below.

Accounts receivables
Accounts receivables are classified in the receivables category. Accounts receivables are recorded at the amount that is expected to be paid in after deduction for doubtful receivables determined on an individual basis. The expected life of accounts receivables is short-term, and accordingly their value is reported at a nominal value without discount. Impairment of accounts receivables is recorded as operating expenses.

Liabilities
Liabilities are classified as other financial liabilities, which means that they are initially reported at the amount received. After acquisition, loans are valued at accrued acquisition value. Transaction costs for acquiring the loan are capitalised and reported as costs during the life time of the loan using the effective interest rate method. Long-term liabilities have an expected life of more than one year, while current liabilities have a life of less than one year.

Trade payables
Trade payables are classified as other financial liabilities. Trade payables have a short expected life and are valued without discount at nominal amounts.

Derivatives and hedge accounting
Derivatives are currency forwards, options, currency swaps and interest rate swaps that are used to handle the risk of exchange rate fluctuation and exposure to interest risk.

Transaction exposure – cash flow hedging
Foreign currency exposure relating to future forecast cash flows are hedged either through currency forwards or through currency options. Currency forwards or currency options that protect the forecast cash flows are reported in the balance sheet at their fair value. Changes in value are recognised directly in equity in a hedging reserve until such time as the hedged cash flow enters the income statement, at which point the hedging instrument's accumulated value changes are transferred to the income statement where they will offset the effects of the hedged transaction on the profit. The hedged cash flows can be both contracted and forecast transactions.

When the hedged future cash flow relates to a transaction that is capitalised in the balance sheet, the hedging reserve is reversed when the hedged item is recorded in the balance sheet. If the hedged item consists of a non-financial asset or a non-financial liability, the amount reversed from the hedging reserve is included in the original acquisition for the asset or liability.

When hedging instruments mature, are sold or redeemed, or the company breaks the identification of the hedging relationship before the hedged transaction has taken place and the forecast transaction is still expected to take place, the reported accumulated gain or loss remains in the hedging reserve in equity and is recorded in a similar way as above when the transaction takes place. If the hedged transaction is no longer expected to take place, the hedging instrument's accumulated gains or losses are immediately reversed against the income statement.

Hedging the Group's fixed interest – cash flow hedging
Interest rate swaps are used to hedge interest rate risk. Interest rate swaps are stated at their fair value in the balance sheet. In the income statement the interest coupon portion is recognised on a continuous basis as interest income or interest expense and other changes in value relating to interest rate swaps are credited or charged to the hedging reserve in equity as long as the hedging reserve and efficiency criteria are met.

Tangible fixed assets
Owned assets
Tangible fixed assets are recognised as assets in the balance sheet if it is likely that the company will receive future financial gains and the acquisition value of the asset can be reliably measured.

Tangible fixed assets are recognised in the consolidated accounts at their acquisition value after deducting accumulated depreciation and possible write-down. The acquisition value includes the purchase price and costs directly relating to the assets to put it in place and in a condition enabling it to be used for the purpose for which it was acquired.

Leased assets
Leasing is classified in the consolidated accounts either as financial or operational leasing. Financial leasing is when the economic risks and benefits associated with ownership are essentially transferred to the lessee. If this is not the case, it is classified as operational leasing.

Assets that are leased under financial leasing agreements are recognised as assets in the consolidated balance sheet. Future leasing fee obligations are recorded as long-term and current liabilities. The leased assets are depreciated according to plan while leasing fees are recorded as interest and amortisation of liabilities.

In the case of operational leasing, the leasing fees are expensed over the lease term on the basis of use, which may differ from the de facto amount of leasing fees paid during the course of the year.

Loan expenses
Loan expenses relating to the acquisition of fixed assets are not capitalised.

Depreciation principles
Straight-line depreciation is used over the estimated useful life of the asset.
Estimated useful life periods:

• buildings, distribution centre	15 years
• equipment, tools and installations	3–10 years

The Group's head office and distribution centre are reported as financial leases and their useful life is the duration of the leasing agreement.

Annual impairment tests are made of the residual value of assets and their useful life.

Intangible fixed assets

Goodwill
Goodwill represents the difference between the acquisition value of acquired operations and the fair value of acquired assets and liabilities and contingent liabilities.

Goodwill is recognised at the acquisition value minus any accumulated impairment losses. Goodwill is distributed to cash-generating units and is not amortised, but impairment tests are carried out on an annual basis.

Software
Computer programs acquired by the company are recorded at their acquisition value minus accumulated depreciation and impairment.

Brands
Brands acquired by the company are recorded at their acquisition value minus accumulated impairment. The KappAhl brand has existed for 50 years and has been gradually strengthened over the years, first through distribution in Sweden and then in other countries. The company has for many years been seeing a trend whereby the type of chain concept represented by KappAhl has been increasing its market share. Based on KappAhl's own growth and the general trends on the market, the brand is expected to endure for many years to come and is therefore believed to have an indefinite useful life. The value in the brand is not amortised but an impairment test is conducted on an annual basis.

Tenancy rights
Tenancy rights for the stores are recorded in the accounts at their acquisition value with an estimated period of use of 20 years.

Amortisation
Amortisation is recorded in the income statement on a straight-line basis over the estimated useful life of the intangible asset, unless the useful life is indefinite. Goodwill and brands have an indefinite useful life and an impairment test is conducted annually or as soon as there are indications that the asset in question has fallen in value. Amortisable intangible assets are amortised from the date they are available for use.

The estimated useful life periods are:

• Software	3 years
• Tenancy rights	20 years

Inventory

Inventory is valued at the lowest of the acquisition value and the net realisable value. The net realisable value is the estimated selling price in current operations, after deduction for the estimated cost of preparation to bring about a sale.

The acquisition value of inventory is calculated using the first-in, first-out method and includes costs incurred in connection with the acquisition of the inventory items and transportation to their current location and in their current condition.

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank assets that can be accessed immediately held in banks and similar institutions, as well as short-term investments with original maturity of less than three months and which are only exposed to a marginal risk of fluctuations in value.

Impairment

The reported values of the Group's assets – with the exception of inventory, administrative assets used for financing, employee benefits and deferred income tax assets, are reviewed on each balance sheet date to assess if impairment is indicated. If such an indication exists, the asset's recoverable value is assessed. The value of assets that are exempt as stated above is reviewed according to the relevant standards in place.

The recovery value of goodwill and brands with an indefinite useful life and intangible assets that are not yet ready for use, are assessed annually.

If it is not possible to establish the individual cash inflow of an individual asset, when an impairment requirement is assessed, the assets are grouped at the lowest level where it is possible to identify essentially independent cash flows. Impairment is indicated when an asset's or a cash-generating unit's reported value exceeds the recovery value. Impairment write-down is recorded in the income statement. Impairment write-down of the assets of a cash-generating entity is allocated firstly to goodwill, thereafter a proportional impairment write-down of the unit's other assets is done. Impairment tests of goodwill were based on the Group's segments which are considered to be the lowest cash-generating units.

Goodwill and brands were acquired in connection with the acquisition of the KappAhl AB Group at the end of December 2004.

Employee benefits

Defined contribution plans
The company's obligations with respect to contributions to defined contribution plans are recognised in the income statement when they are due.

Defined benefit plans

The Group's net obligation with respect to defined benefit plans is calculated individually for each plan by estimating the future amount the employees will have earned from their employment for both current and previous periods. This amount is discounted to its present value and the actual value of any administrative assets is deducted. The discount rate is the rate of interest on the balance sheet date of first-class corporate bonds with a term that corresponds to the Group's pension commitments. When there is no active market for such corporate bonds, the market interest rate on government bonds with the same term is used. The calculation is made by a qualified actuary using the projected unit credit method.

When plan contributions are increased, the portion of the increase relating to the employee's service during previous periods is reported as an expense in the income statement distributed in a straight line over the average period until the amount is fully realised. If the amount is fully realised, a cost is recognised directly in the income statement because the subsidiary group's pension commitments are included in the Group from the date of acquisition, 31 December 2004.

For actuarial gains and losses that arise in connection with the calculation of the Group's obligations to different plans after 1 January 2005, the so-called corridor is applied. This means that the portion of the accumulated actuarial gains and losses that exceeds 10% of the highest of the obligations' current value and the administrative assets' actual value is recognised in the result of the expected average remaining service period of the employees that are covered by the plan. In all other cases, actuarial gains and losses are not taken into account.

When there is a difference in the way in which the pension expenses are measured for legal entities and groups, a provision or claim is reported in respect of a special payroll tax based on this difference. The provision or claim is not calculated at its present value.

Provisions

A provision is reported in the balance sheet when the Group has an existing legal or informal obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. When the effect of the timing of the payment is important, provisions are calculated by discounting the expected future cash flow at an interest rate before tax that reflects actual market assessments of the money's time value, and where appropriate, the risks that are associated with the liability.

Other provisions

"Medmera" cards

Provisions are made for estimated customer bonuses relating to the KF "Medmera" card (loyalty card) programme. The provision is calculated using sales statistics from KF.

Closure of stores

Provisions are made for restructuring measures, which mainly consist of expenses in connection with the closure of stores. A minor provision has been made regarding tenancy rights for stores.

Sale-or-return

Provisions are made for returned goods or complaints in connection with the utilisation of sale-or-return. The provision is based on sales statistics and judgements of future complaints and returned goods.

Income taxes

Income tax consists of current income tax and deferred income tax. Income taxes are recorded in the income statement except when the underlying transaction is recognised directly in equity, in which case the associated tax effect is recognised in equity.

Current income tax is tax that must be paid or may be recovered for the current year using the tax rates in effect or notified as of the balance sheet date. This also includes adjustments to actual tax relating to earlier periods.

Deferred income tax is calculated using the balance sheet method based on temporary differences between the book value of assets and liabilities and their value as assessed for income tax purposes. The following temporary differences are not taken into account: temporary differences that have arisen upon first recognition of goodwill; first recognition of assets and liabilities that are not acquisitions of operations and at the time of the transaction do not affect the reported or taxable profit; temporary differences relating to participations in subsidiaries that are not expected to be reversed in the foreseeable future. The value of deferred income tax is based on how the reported amounts of assets or liabilities are expected to be realised or paid. Deferred income tax is calculated using the tax rates and tax rules that are in effect or notified as of the balance sheet date.

Deferred income tax assets relating to temporary tax-deductible differences and loss carry-forwards are entered in the accounts only when it is likely that these will be able to be used in the future. The value of deferred income tax assets are reduced when it is no longer deemed likely that they can be used.

Parent company's accounting principles

The parent company presents its annual accounts according to the Annual Accounts Act (1995:1554) and the Swedish Financial Accounting Standards Council's recommendation RR 32 Accounting of Legal Entities. According to RR 32, in the annual accounts for a legal entity, the parent company must apply all of the IFRS rules and statements approved by the EU to the extent possible within the framework of the Annual Accounts Act and taking into account the connection between accounting and taxation. The recommendation states the exceptions from and additions to IFRS that are to be made. The differences between the Group's and the parent company's accounting principles are outlined below.

In accordance with the transition rules in RR 32, the company has applied chapter 4 §14 a-e in the Annual Accounts Act which permits financial instruments to be recognised at their fair value.

The accounting principles outlined below for the parent company have been consistently applied to all periods that are presented in the parent company's financial statements.

Changes in accounting principles

The parent company is not reporting any changes in accounting principles for the financial year.

Taxes

The parent company reports untaxed reserves including deferred tax liability. In the consolidated accounts, however, the untaxed reserves are divided up into deferred income tax liability and equity.

Group contributions and shareholders' contributions for legal entities

The company accounts for Group contributions in accordance with the statement issued by the Swedish Financial Accounting Standards Council's Emerging Issues Group. Group contributions are entered in the accounts according to their financial significance. This means that Group contributions that have been made in order to minimise the Group's overall tax burden are entered directly against retained earnings after a deduction for the actual income tax effect.

New financial year

Due to the change of financial year last year, the comparable figures for last year cover an accounting period of 8 months, i.e. the period from 1 January to 31 August 2005. Since KappAhl Holding acquired KappAhl AB on 31 December 2004 and the Group was formed on that date, there are therefore no relevant comparable data further back in time other than the previous financial year.

2 DIVISION OF REVENUE

The Group's revenues consist entirely of the sale of goods.

3 SEGMENT REPORTING

Segment reporting is established for the Group's geographic areas. The Group's internal reporting system is based on returns from activities in different geographic areas, which is way geographical areas are the primary basis for division.

Internal prices between different segments are determined using the "arm's length" principle, i.e. between parties independent of each other, well informed and with an interest that the transactions are completed.

Included in the profit/loss, assets and liabilities are directly attributable items and items that can be included in the segment in a reasonable and reliable way. Assets and liabilities not divided by segment include brands, interest-bearing long-term and current liabilities, deferred income tax receivables and deferred income tax liabilities, and other financial liabilities.

The segment's investment in tangible and intangible assets includes all investment except investment in current inventories and low value inventories.

Geographic areas

The Group's segments are divided into the following two geographic areas: Nordic countries and Other. The Nordic countries are Sweden, Norway and Finland. "Other" refers to Poland. The same type of activity is carried out in the various geographic areas, i.e. sales of womenswear, meanswear and childrenswear.

Information about the segments' assets and investment in tangible and intangible assets is based on geographic areas grouped according to where the assets are located.

Note 3 continued

Segment

The Group	Nordic		Other		Eliminations		The Group	
SEK million	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005
Sales	4,075.2	2,313.0	141.8	74.0	—	—	4,217.0	2,387.0
Operating profit per segment	522.9	169.5	7.5	0.4	—	—	530.4	169.9
Operating profit	**522.9**	**169.5**	**7.5**	**0.4**	**—**	**—**	**530.4**	**169.9**
Assets	2,062.5	2,078.7	48.8	37.0	—	—	2,111.3	2,115.7
Undivided assets					768.5	825.4	768.5	825.4
Total assets	**2,062.5**	**2,078.7**	**48.8**	**37.0**	**768.5**	**825.4**	**2,879.8**	**2,941.1**

The Group	Nordic		Other		Eliminations		The Group	
SEK million	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005
Liabilities	619.4	738.9	38.4	31.0	– 32.4	– 27.8	625.4	742.1
Undivided liabilities					1,841.1	1,915.5	1,841.1	1,915.5
Total liabilities	**619.4**	**738.9**	**38.4**	**31.0**	**1,808.7**	**1,887.7**	**2,466.5**	**2,657.6**
Investment	224.5	161.8	12.5	10.0			237.0	171.8
Undivided investment						– 40.0		– 40.0
Total investment	**224.5**	**161.8**	**12.5**	**10.0**		**– 40.0**	**237.0**	**131.8**

4 NET SALES

Net sales by geographic market

	Group	
SEK million	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005
Sweden	2,365.2	1,346. 4
Finland	473.2	269.5
Norway	1,236.6	697.1
Poland	142.0	74.0
The Czech Republic	—	—
Total	**4,217.0**	**2,387.0**

5 EMPLOYEES AND STAFF COSTS

Average number of employees

	1 Sep 2005 31 Aug 2006	Of whom men, %	1 Jan 2005 31 Aug 2005	Of whom men, %
Parent company				
Sweden	2	100	—	—
Total parent company	**2**	**100**	**—**	**—**
Subsidiaries				
Sweden	1,509	14.0	1,429	11.7
Norway	586	7.5	582	4.6
Finland	267	2.2	247	2.5
Poland	130	9.8	119	9.2
Asia	98	44.6	92	34.5
Total, subsidiaries	**2,590**	**12.5**	**2,469**	**9.7**
Group total	**2,592**	**12.6**	**2,469**	**9.7**

Distribution according to gender in corporate management

	31 Aug 2006 Proportion of women, %	31 Aug 2005 Proportion of women, %
Parent company		
Board of Directors	60	50
Other senior executives	0	0
Group total		
Board of Directors	60	50
Other senior executives	71	65

Salaries, other remuneration and social security costs

	1 Sep 2005–31 Aug 2006		1 Jan 2005–31 Aug 2005	
SEK million	Salaries and remuneration	Social security costs	Salaries and remuneration	Social security costs
Parent company	**3.1**	**1.0**	**—**	**—**
(of which pension costs)		—		—
Subsidiaries	**721.0**	**202.6**	**456.6**	**172.7**
(of which pension costs)		37.5[1]		35.4[1]
Group total	**724.1**	**203.6**	**456.6**	**172.7**
(of which pension costs)		37.5[1]		35.4[1]

[1] The parent company's pension costs include SEK 1.7 million (1.0) for the Board of Directors and the CEO and the Executive Vice President.

Note 5 continued

Salaries and other remunerations by country and between board members etc. and other employees

	1 Sep 2005–31 Aug 2006		1 Jan 2005–31 Aug 2005	
SEK million	Board and CEO	Other employees	Board and CEO	Other employees
Parent Company				
Sweden	2.5	0.6	—	—
(of which bonus etc.)	—	—	—	—
Parent company total	**2.5**	**0.6**	**—**	**—**
(of which bonus etc.)	—	—	—	—
Subsidiary in Sweden	6.2	413.5	5.6	267.1
(of which bonus etc.)	0.6	5.6	0.9	7.8
Foreign subsidiaries				
Norway	2.4	217.1	1.7	133.9
(of which bonus etc.)		0.7	—	0.8
Finland	1.5	56.6	0.9	34.0
(of which bonus etc.)	—	0.4	—	0.8
Poland	0.6	12.1	0.4	6.4
(of which bonus etc.)	—	—	—	0.2
Asia	1.1	9.9	0.6	6.0
(of which bonus etc.)	—	—	—	—
Subsidiaries total	**11.8**	**709.2**	**9.2**	**447.4**
(of which bonus etc.)	0.6	6.7	0.9	9.6
Group total	**14.3**	**709.8**	**9.2**	**447.4**
(of which bonus etc.)	0.6	6.7	0.9	9.6

Of the salaries and remunerations paid to other employees in the Group, SEK 9.0 million is for senior executives other than the Board of Directors and the CEO.

Severance pay

If requested by their employer to resign their positions, senior executives have contracts that guarantee them the right to retain their salaries in full for a period of 6 months. Retirement benefits are based on national pension plans from 65 years of age.

Employment terms of CEO

If requested by the employer to resign his positions, the CEO has a contract that guarantees him the right to retain his salary in full for a period of 6 months. Retirement benefits are based on national pension plans from 60 years of age.

Absence due to illness at KappAhl AB

The parent company, KappAhl Holding AB had an average of two employees during the period. There was no absence due to illness during the period. Last year the parent company did not have any employees.

Other information

For information on remuneration to employees after terminated employment and share-related remuneration, see note 19.

6 FEES AND REMUNERATION TO AUDITORS

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005	Parent company 1 Sep 2005 31 Aug 2006	Parent company 1 Jan 2005 31 Aug 2005
PricewaterhouseCoopers				
Auditing assignments	2.5	1.0	0.2	0.3
Other assignments	5.0	0.8	0.1	—
KPMG				
Auditing assignments	—	0.6	—	—
Other assignments	1.7	0.3	0.1	—

Auditing assignments refers to audits of the annual report and accounts as well as the Board of Directors' and the CEO's administration of the company, other tasks that are the responsibility of the company's auditors, as well as advice or other assistance relating to observations made during auditing assignments or while conducting tasks of a similar nature. Everything else are "Other assignments." The costs of the stock market listing are also included on "Other assignments".

7 OPERATING COSTS

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005
Raw materials and supplies	1,676.7	693.8
Changes in stocks of finished goods and work in progress	—	4.1
Staff costs	928.4	597.8
Amortisation	173.3	114.7
Impairment	—	0.1
Other operating costs	908.3	806.6
	3,686.7	**2,217.1**

The "Raw materials and supplies" item includes the profit effect of resolving the customs dispute in Norway, worth a total of SEK 22 million.

8 NET FINANCIAL ITEMS

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005
Interest income	1.8	2.3
Financial income	**1.8**	**2.3**
Cost of stock market listing	– 19.8	—
Cost of restructuring finances	– 19.8	—
Interest expense	– 73.9	– 98.4
Financial expenses	**– 113.5**	**– 98.4**
Net financial items	**– 111.7**	**– 96.1**

Interest income and similar profit/loss items

SEK million	Parent company 1 Sep 2005 31 Aug 2006	Parent company 1 Jan 2005 31 Aug 2005
Interest income, Group companies	—	0.7
	—	**0.7**

Interest expenses and similar profit/loss items

SEK million	Parent company 1 Sep 2005 31 Aug 2006	Parent company 1 Jan 2005 31 Aug 2005
Cost of stock market listing	– 19.8	—
Cost of restructuring finances	– 19.8	—
Interest expenses	– 73.3	– 87.8
	– 112.9	**– 87.8**

9 TAXES

Reported in income statement

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005
Actual income tax expense (–)/ tax credit (+)		
Income tax expense for the period	– 36.0	– 3.1
Adjustment of tax pertaining to previous years	– 0.3	—
Deferred tax expense (–) / tax credit (+)		
Deferred income tax relating to temporary differences	9.8	– 32.1
Deferred income tax in change of loss carry-forward	– 90.2	14.4
Total reported tax expense for Group	**– 116.7**	**– 20.8**

SEK million	Parent company 1 Sep 2005 31 Aug 2006	Parent company 1 Jan 2005 31 Aug 2005
Actual income tax expense (–)/ tax credit (+)		
Tax credit for period	30.0	24.5
Adjustment of tax pertaining to previous years	—	—
Deferred tax expense (–) / tax credit (+)		
Deferred income tax credit: capitalized tax value in loss carry-forward	– 0.2	—
Total reported tax credit in parent company	**29.8**	**24.5**

Reconciliation of effective tax

SEK million	Group 1 Sep 2005 31 Aug 2006 per cent	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005 per cent	Group 1 Jan 2005 31 Aug 2005
Profit before tax		418.7		73.9
Tax at effective tax rate for parent company	28.0	117.2	28.0	20.7
Effect of other tax rates for foreign subsidiaries	—	—	– 0.4	– 0.3
Non-deductible expenses	0.3	1.4	0.7	0.5
Non-taxable income	– 0.3	– 1.4	– 2.0	– 1.5
Utilisation of previously non-capitalised losses carried forward	—	—	0.8	0.6
Other	– 0.1	– 0.5	1.1	0.8
Effective tax	**27.9**	**116.7**	**28.2**	**20.8**

SEK million	Parent company 1 Sep 2005 31 Aug 2006 per cent	Parent company 1 Sep 2005 31 Aug 2006	Parent company 1 Jan 2005 31 Aug 2005 per cent	Parent company 1 Jan 2005 31 Aug 2005
Loss before tax		– 106.3		– 87.7
Tax at effective tax rate for parent company	28.0	29.8	28.0	24.5
Effective tax	**28.0**	**29.8**	**28.0**	**24.5**

Note 9 continued

Reported in the balance sheet

Deferred income tax asset and tax liability

Reported deferred income tax asset and income tax liability

Deferred income tax asset and income tax liability pertain to the following:

	Group					
	Deferred income tax asset		Deferred income tax liability		Net	
SEK million	31 Aug 2006	31 Aug 2005	31 Aug 2006	31 Aug 2005	31 Aug 2006	31 Aug 2005
Intangible fixed assets	67.6	56.1	– 168.3	– 178.3	– 100.7	– 122.2
Provisions	10.7	6.0	—	—	10.7	6.0
Untaxed reserves	—	—	– 59.4	– 42.6	– 59.4	– 42.6
Loss carry-forward	43.0	133.2	—	—	43.0	133.2
Current assets and liabilities	1.8	—	—	—	1.8	—
Net income tax asset/ income tax liability	**123.0**	**195.3**	**– 227.7**	**– 220.9**	**– 104.7**	**– 25.6**

Reported deferred income tax asset and income tax liability

Deferred income tax asset and income tax liability pertaining to the following:

	Parent company					
	Deferred income tax asset		Deferred income tax liability		Net	
SEK million	31 Aug 2006	31 Aug 2005	31 Aug 2006	31 Aug 2005	31 Aug 2006	31 Aug 2005
Provisions and long-term liabilities	—	2.7	– 2.6	—	– 2.6	2.7
Loss carry-forward	1.1	1.3	—	—	1.1	1.3
Net income tax asset/ income tax liability	**1.1**	**4.0**	**– 2.6**	**—**	**– 1.5**	**4.0**

The differences between the years in the case of the parent company have been reported as deferred income tax expense/credit.

Expiration time for reported deferred income tax assets

	Group		Parent company	
SEK million	31 Aug 2006	31 Aug 2005	31 Aug 2006	31 Aug 2005
Deferred income tax asset recovered within one year	52.4	56.1		1.3
Deferred income tax asset recovered after one year	70.6	139.2	1.1	2.7
	123.0	**195.3**	**1.1**	**4.0**

Expiration time for reported deferred income tax liability

	Group		Parent company	
SEK million	31 Aug 2006	31 Aug 2005	31 Aug 2006	31 Aug 2005
Deferred income tax liability due for payment within one year	—	—	—	—
Deferred income tax liability due for payment after one year	227.7	220.9	2.6	—
	227.7	**220.9**	**2.6**	**—**

10 INTANGIBLE FIXED ASSETS

	Group				
SEK million	Software	Brand	Tenancy	Goodwill	Total
Accumulated acquisition values					
Opening balance 1 Jan 2005	65.9	610.1	40.8	778.5	1,495.3
Other investments	11.4	—	—	—	11.4
Sales and disposals	– 0.7	—	– 3.6	—	– 4.3
Translation differences for the year	0.1	—	—	—	0.1
Changes in acquisition analysis	—	—	—	– 74.6	– 74.6
Closing balance 31 Aug 2005	**76.7**	**610.1**	**37.2**	**703.9**	**1,427.9**
Opening balance 1 Sep 2005	76.7	610.1	37.2	703.9	1,427.9
Other investments	24.1	—	—	—	24.1
Sales and disposals	—	—	—	—	—
Adjustments in acquisition analysis	—	—	—	– 8.1	– 8.1
Changes in acquisition analysis	—	—	—	—	—
Closing balance 31 Aug 2006	**100.8**	**610.1**	**37.2**	**695.8**	**1,443.9**
Opening balance 1 Jan 2005	– 55.0	—	– 27.0	—	– 82.0
Sales and disposals	0.7	—	—	—	0.7
Amortisation for the year	– 2.3	—	– 0.1	—	– 2.4
Translation differences for the year	– 0.1	—	—	—	– 0.1
Closing balance 31 Aug 2005	**– 56.7**	**—**	**– 27.1**	**—**	**– 83.8**
Opening balance 1 Sep 2005	– 56.7	—	– 27.1	—	– 83.8
Amortisation for the year	– 8.7	—	– 2.3	—	– 11.0
Closing balance 31 Aug 2006	**– 65.4**	**—**	**– 29.4**	**—**	**– 94.8**
Booked values					
Per 1 Jan 2005	10.9	610.1	13.8	778.5	1,413.3
Per 31 Aug 2005	**20.0**	**610.1**	**10.1**	**703.9**	**1,344.1**
Per 1 Sep 2005	20.0	610.1	10.1	703.9	1,344.1
Per 31 Aug 2006	**35.4**	**610.1**	**7.8**	**695.8**	**1,349.1**

Amortisation

Amortisation is included in the following lines in the income statement

	Group		Parent company	
SEK million	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005
Cost of goods sold	– 2.9	– 1.2	—	—
Administrative expenses	– 8.1	– 1.2	—	—
	– 11.0	**– 2.4**	**—**	**—**

Note 10 continued

Impairment tests for cash-generating units with goodwill and brands

An impairment test has been carried out for the segments of the Group, the Nordic countries and other, which are considered as cash-generating units.

The KappAhl Holding AB Group has considerable recorded values pertaining to goodwill and brands, see note 10, and the recoverable amounts of both items is based on the same important assumptions.

The impairment test is based on a calculation of future value in use. The calculation is based on cash flow forecasts for four years and then on a constant flow, since these assets have an indefinite period of use. The forecast cash flows after the first four years have been based on an annual growth rate of 2 per cent, which is equivalent to the long-term growth rate on the unit's markets. The forecast cash flows have been calculated at their present value with a discount pre-tax rate of 7.7 per cent. The important assumptions in the impairment test are described in the table below.

Important variables	Methods for assessing amounts
Market share and market growth	The demand for these mature products has historically followed general economic trends. An assumption has been made regarding the appropriate market share in future periods for the existing stores. Also included is an assumption that the number of stores will increase to some extent. The forecast is in line with past experiences and external sources of information.
Gross margins	By way of precaution, the gross margin has been set at a slightly lower level than the existing level, even though the intention is that this will not be the case. The forecast is in line with past experiences.
Costs	Costs are expected to increase along with net sales apart from certain common costs that are expected to grow with inflation. The forecast is in line with past experiences.

Corporate management believes that possible changes in assumed variables – although still important variables in the calculations – would not have such a big impact that each of them would reduce the recoverable value to a value that is lower than the book value.

In order to support the impairment test performed on goodwill and brands within the Group, a comprehensive analysis has been made of the sensitivity of the variables used in the model. An assumption of a decreased annual growth according to above, down to 0 per cent in combination with an increase of the discount rate by two percentage points, still shows a very good margin between recoverable value and book value. Accordingly, there is no need for an impairment of the assets.

11 TANGIBLE FIXED ASSETS

	Group		
SEK million	Buildings	Equipment, tools and installations	Total
Acquisition value			
Opening balance 1 Jan 2005	221.0	1,087.5	1,308.5
Year's acquisitions	—	157.4	157.4
Disposals	—	– 71.4	– 71.4
Translation differences	—	35.8	35.8
Closing balance 31 Aug 2005	**221.0**	**1,209.3**	**1,430.3**
Opening balance 1 Sep 2005	221.0	1,209.3	1,430.3
Year's acquisitions	—	206.1	206.1
Disposals	—	– 1.5	– 1.5
Translation differences	—	– 11.9	– 12.6
Closing balance 31 Aug 2006	**221.0**	**1,402.0**	**1,623.0**
Depreciation and impairment			
Opening balance 1 Jan 2005	– 28.2	– 718.2	– 746.4
Depreciation for the year	– 9.8	– 86.4	– 96.2
Disposals	—	56.9	56.9
Translation differences	—	– 26.3	– 26.3
Closing balance 31 Aug 2005	**– 38.0**	**– 774.0**	**– 812.0**
Opening balance 1 Sep 2005	– 38.0	– 774.0	– 812.0
Depreciation for the year	– 14.8	– 147.4	– 162.2
Disposals	—	2.4	2.4
Translation differences	—	10.8	10.8
Closing balance 31 Aug 2006	**– 52.8**	**– 908.2**	**– 961.0**
Booked values			
Per 1 Jan 2005	192.8	369.3	562.1
Per 31 Aug 2005	**183.0**	**435.3**	**618.3**
Per 1 Sep 2005	183.0	435.3	618.3
Per 31 Aug 2006	**168.2**	**493.8**	**662.0**

The buildings the Group has under financial leasing agreements are included in the Group's tangible fixed assets.

Future minimum leasing fees are due for payment as follows:

Within one year	22.3
1–5 years	89.2
Later than five years	93.2
	204.7

The present value of future minimum leasing fees is entered in the accounts partly as a current liability and partly as a long-term liability.

Depreciation

Depreciation is included in the following lines in the income statement

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005	Parent company 1 Sep 2005 31 Aug 2006	Parent company 1 Jan 2005 31 Aug 2005
Cost of goods sold	– 12.6	– 15.0	—	—
Administrative expenses	– 5.6	– 7.4	—	—
Selling expenses	– 144.0	– 73.8	—	—
	– 162.2	**– 96.2**	**—**	**—**

Leasing agreements – distribution centre and head office

The Group leases a property that houses the Group's distribution centre and head office in Mölndal.

12 RECEIVABLES FROM GROUP COMPANIES

SEK million	Parent company 31 Aug 2006	Parent company 31 Aug 2005
Accumulated acquisition value		
At beginning of year	1,789.1	1.2
Group contributions	107.0	87.7
Anticipated dividend	—	1,700.0
Received dividend	– 1,700.0	
Other	– 0.4	0.2
Closing balance	**195.7**	**1 789.1**

13 LONG-TERM RECEIVABLES AND OTHER RECEIVABLES

SEK million	Group 31 Aug 2006	Group 31 Aug 2005
Long-term receivables that are fixed assets		
Interest rate derivatives	9.3	—
Other	1.4	3.5
	10.7	**3.5**
Other receivables that are current assets		
Exchange rate derivatives	10.7	31.4
Other	2.7	3.1
	13.4	**34.5**

14 INVENTORIES

SEK million	Group 31 Aug 2006	Group 31 Aug 2005
Finished goods and goods for resale	557.7	589.9
	557.7	**589.9**

15 PREPAID EXPENSES AND ACCRUED INCOME

SEK million	Group 31 Aug 2006	Group 31 Aug 2005	Parent company 31 Aug 2006	Parent company 31 Aug 2005
Prepaid rental costs	52.6	36.1	—	—
Prepaid banking costs	6.2	23.1	2.4	23.1
Prepaid customs costs	7.8	7.8		
Other	14.3	0.5	2.3	0.4
	80.9	**67.5**	**4.7**	**23.5**

Prepaid banking costs are to all extents and purposes costs for financing. These costs are included in the income statement in accordance with the contract period.

16 CASH AND CASH EQUIVALENTS

Net sales per geographic market

SEK million	Group 31 Aug 2006	Group 31 Aug 2005
The following components are included in cash and cash equivalents:		
Cash and cash equivalents	9.2	8.5
Bank accounts	63.1	74.7
Total according to the balance sheet and cash flow statement	**72.3**	**83.2**

The Group's total overdraft facility limit is SEK 496 (400) million.

18 DEBTS TO CREDIT INSTITUTIONS

SEK million	Parent company 31 Aug 2006	Parent company 31 Aug 2005
Long-term liabilities		
Bank loans	1,144.0	1,335.0
	1,144.0	**1,335.0**
Short-term liabilities		
Bank loans	56.0	—
Liabilities that fall due later than five years after closing date		
Bank loans	—	1,335.0

The bank loans fall due in full in February 2011 and amortisation during the remainder of the period of the agreement amounts to SEK 572 million, of which SEK 56 million falls due within one year.

See also note 23 concerning interest rate exposure.

17 INTEREST-BEARING LIABILITIES

This note contains information about contractual terms and conditions for the company with respect to interest-bearing liabilities. For more information about the company's exposure to interest rate risk and exchange rate fluctuation risk, see Note 23.

SEK million	Group 31 Aug 2006	Group 31 Aug 2005
Long-term liabilities		
Bank loans	1,144.0	1,335.0
Current liabilities		
Bank loans	56.0	—
Other interest-bearing liabilities	—	3.1
	1,200.0	**1,358.1**

The Group has a bank limit for outstanding letters of credit worth SEK 200 million.

Shareholder loans
The shareholder loans were paid off in their entirety in advance during the financial year.

Terms & conditions and repayment deadlines
Security for the bank loans has been issued in the form of shares in the subsidiary KappAhl AB.

19 REMUNERATION TO EMPLOYEES

Pensions and other remuneration after terminated employment

Defined benefit plans

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005
Present value of partially or fully funded obligations	149.5	174.5
Actual amount of partially or fully funded obligations	– 104.0	– 84.7
Net of partially or fully funded obligations	45.5	89.8
Present value of unfunded obligations	26.7	31.2
Present value of the net obligation	72.3	121.0
Unrecognised actuarial gains (+) and losses (–)	– 8.6	– 50.0
Unrecognised costs relating to service in previous periods	—	2.8
Net obligation for defined benefit plans	**63.6**	**73.8**
Net amount reported in the following items in the balance sheet:		
Provisions for pensions	63,6	73,8

Provision for defined benefit obligations

The Group offers both defined contribution and defined benefit pension plans. In the case of the defined contribution plans, the Group's obligation is limited to fixed contributions that are paid to a separate legal entity. The Group's profits are charged as the benefits are earned. In the defined benefit plans, the Group's obligation is based on the employee's salary at the time he/she retires and the number of years served. The Group stands the risk associated with payment of the pledged benefits.

In the balance sheet the difference between the present value of the obligations and the actual value of any administrative assets is recorded as either a provision or a long-term financial asset.

Defined benefit plans are calculated according to the so-called projected unit credit method. This method distributes the cost of pensions as the employees carry out services for the company that increases their right to future benefits. This calculation is done annually by independent actuaries. The company's commitments are valued at the present value of the expected future payments.

Actuarial gains and losses may occur if the actual outcome deviates from previous assumptions or if the assumptions are changed. The portion of the accumulated actuarial gains and losses at the end of the previous year in excess of 10 per cent of the greater of the present value of the obligations and administrative assets' actual value is entered as profit over employees' remaining employment period.

Changes in net obligation for defined benefit plans as stated in the balance sheet

SEK million	Group 31 Aug 2006	Group 31 Aug 2005
Net obligation for defined benefit plans as of 1 September (last year, 1 January)	73.8	65.5
Benefits paid out	– 1.9	1.1
Contributions received	– 20.3	– 8.5
Cost reported in the income statement	13.0	13.1
Exchange rate differences	– 1.1	2.6
Net obligation for defined benefit plans as of 31 August	**63.6**	**73.8**

Cost reported in the income statement

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005
Costs relating to service in current period	6.4	8.7
Interest expense relating to obligation	6.7	4.2
Expected yield on administrative assets	– 2.6	– 2.4
Effect of reductions and adjustments	2.5	2.6
Total net costs in the income statement	**13.0**	**13.1**

The cost is reported in the following lines in the income statement:

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005
Cost of goods sold	2.7	3.8
Selling expenses	3.3	4.7
Administrative costs	0.3	1.4
Financial expenses	6.7	4.2
	13.0	**13.1**
Actual return on administrated assets	6,738	– 535

Note 19 continued

Actuarial assumptions for defined benefit obligations

The most significant actuarial assumptions as of the balance sheet date (expressed as weighted average amounts)

Sweden and Norway compared

Per cent	Sweden 2006	Sweden 2005	Norway 2006	Norway 2005
Discount rate as of 31 August	3.9	3.1	4.5	4.5
Future salary increases	3.0	3.0	3.3	3.3
Future pension increases	2.0	2.0	2.5	2.5
Employee turnover	5.0	5.0		—
Inflation	2.0	2.0		—
Expected yield	3.9	3.1	5.5	5.5

SEK million	Group 2006	Group 2005
Amount in the provision that is expected to be paid after a period of 12 months	63.6	73.8

Benefits for senior executives

Remuneration and other benefits during the year

SEK million	Parent company 1 Sep 2005–31 Aug 2006 Base salary Board of Directors	Variable remuneration	Pensions-fees	Total	Parent company 1 Jan 2005–31 Aug 2005 Base salary Board of Directors	Variable remuneration	Pensions-fees	Total
Chairman of the Board, Finn Johnsson	0.4			0.4	0.3	—	—	0.3
Board member Amelia Adamo	0.1			0.1	0.1	—	—	0.1
Board member Paul Frankenius	1.1			1.1				
Board member Jan Samuelsson	0.2			0.2				
Board member Pernilla Ström	0.2			0.2	0.1	—	—	0.1
Board member Bo Söderberg	0.1			0.1				
Other (5 board members)	0.1			0.1				
CEO	3.4	0.6	1.1	5.1	5.1	0.9	1.0	7.0
Management team	7.4	1.0	0.6	9.0				
Total	**13.0**	**1.6**	**1.7**	**16.3**	**5.6**	**0.9**	**1.0**	**7.5**

Paul Frankenius resigned as deputy CEO and became a board member of the company in connection with the stock market listing.

20 OTHER ALLOCATIONS

SEK million	Group 31 Aug 2006	Group 31 Aug 2005
Provisions that are long-term liabilities		
Medmera loyalty cards	7.2	7.1
Discontinuation of operations	2.0	29.1
Other risk provisions/duties	—	14.7
Total	**9.2**	**50.9**

SEK million	Group total 31 Aug 2006	Group total 31 Aug 2005
Reported value at beginning of period	**50,9**	**50,1**
Provisions made during the period	—	—
Unutilized amount reversed during the period	– 41.7	– 2.3
Increase in discounted amount during the period	—	4.6
Other	—	– 1.5
Reported value at end of period	**9.2**	**50.9**

SEK million	Group 31 Aug 2006	Group 31 Aug 2005
Payments		
Amount of the provision that is expected to be paid after a period of twelve months	2.0	50.9

21 OTHER LIABILITIES

SEK million	Group 31 Aug 2006	Group 31 Aug 2005
Long term		
Debenture loan	—	1.4
Derivatives	—	9.8
	—	**11.2**
Short term		
VAT	38.9	22.9
Liabilities to employees	31.1	28.2
Gift vouchers	13.5	11.6
Currency derivatives	9.9	—
Other	3.9	10.2
	97.3	**72.9**

SEK million	Parent company 31 Aug 2006	Parent company 31 Aug 2005
Long term		
Subordinated debentures	—	1.4
Interest derivatives	—	9.8
	—	**11.2**
Short term		
VAT	2.0	—
Other	0.2	—
	2.2	**—**

Liabilities that fall due for payment more than five years from the balance sheet date

A certain portion of the gift vouchers liability for the Swedish operating subsidiary is spread over more than five years because the gift vouchers are valid for 10 years.

22 ACCRUED COSTS AND PREPAID INCOME

SEK million	Group 31 Aug 2006	Group 31 Aug 2005	Parent company 31 Aug 2006	Parent company 31 Aug 2005
Personnel related expenses	151.4	197.2	—	—
Financial costs	7.3	8.0	7.3	1.7
Rental liabilities	6.1	—	—	—
Other	27.3	15.8	0.7	0.3
	192.1	**221.0**	**8.0**	**2.0**

23 FINANCIAL RISKS AND FINANCIAL POLICY

In its business activities, the Group is exposed to different types of financial risk. Financial risk refers to fluctuations in the company's earnings and cash flow as a result of changes in foreign exchange rates, interest rates, refinancing and credit risks.

Management of the Group's financial risk is concentrated to a central financing department that uses the finance policy established by the Board of Directors. This policy outlines how the various types of risk are to be managed. The Board of Directors has appointed an Audit Committee, which among other tasks, is responsible for overseeing the formulation of the finance policy and, if necessary, proposing changes to the policy to the Board.

The Group's finance department is responsible for raising capital, liquidity management and currency exposure and interest rate risk management. The responsibility concerns both the parent company and the Group as a whole. The finance department is also responsible for finance policy issues and acts as an internal bank for the Group's subsidiaries. The overall objective of the finance department is to provide cost-effective financing and to minimise the negative effects of market fluctuation on the Group's profit.

Liquidity risk

Liquidity risk (also called financing risk) is the risk that the company's financing will not be able to be maintained, or only maintained at a significantly increased cost. According to the finance policy, there should always be sufficient cash funds to cover foreseeable expenses as well as unforeseen expenses and investments. In addition, the maturity dates of the financial liabilities have been spread over time to limit the liquidity risk.

The company's financial liability as of 31 August 2006 amounted to SEK 1,200 million (1,335). In addition to this, there are overdraft facilities in multiple currencies equivalent to SEK 496 million, of which SEK 218 million was utilised as of 31 August 2006.

Note 23 continued

Interest rate risk

Interest rate risk may consist of changes in actual value, price risk, changes in cash flow and cash flow risk. A significant factor that changes interest rate risk is fixed interest terms. Long fixed interest terms mainly impact the cash flow risk, while short fixed interest terms affect the price risk.

60 per cent of the Group's debt has been converted to fixed interest debt though interest swaps. The effective rate of interest on remaining loans amounted to 3.6 per cent as of 31 August 2006.

Management of the Group's interest exposure is a centralised function, which means that the central finance department is responsible for identifying and managing this type of exposure.

According to the finance policy, 75 per cent of the company's loans that mature more than one year in the future are subject to interest rate hedging. Derivatives, such as interest rate swaps, are used to manage interest rate risk. The company uses hedge accounting when there is an effective connection between secured loans and interest rate swaps, (see also Note 1 Accounting Principles).

As of 31 August 2006, the company had interest rate swaps with a contractual value of SEK 800 million (800).

The actual net value of the swaps on 31 August 2006 amounted to SEK 9 million (–9) consisting of assets of SEK 9 million (0) and liabilities of SEK 0 million (9).

Total interest costs, including interest swaps with the loan structure of 31 August 2006 amount to around SEK 56 million for the financial year, which corresponds to around 1.5 per cent of the Group's costs.

Credit risk

Credit risk associated with financial activities

Financial risk management involves exposure to credit risk. This is mainly in the form of counterparty risk in connection with receivables from banks and other counterparties that arise when derivatives are purchased. The finance policy states that only internationally well-reputed banks may be used by the company.

Credit risk associated with accounts receivable

Since the Group is engaged essentially in cash sales with its customers, the credit risk associated with accounts receivable is minimal.

Currency exposure

The Group is exposed to various types of foreign currency risk since it has operations in several different countries and since much of the Group's purchasing is transacted in foreign currencies.

Transaction exposure

The Group has income and expenses in a number of foreign currencies. Thus KappAhl is exposed to exchange rate fluctuation. This risk is called transaction exposure and affects the Group's operating profit. The finance policy sets the parameters for managing this risk and this involves hedging the flows within a period of twelve months.

The foreign companies essentially generate income and expenses in their local currencies. This means that the Group's transaction exposure can most easily be illustrated by looking at the net currency flows in Sweden:

Currency	1 Sep 2005 31 Aug 2006 Outward	1 Sep 2005 31 Aug 2006 Inward	1 Jan 2005 Aug 2005 Outward	1 Jan 2005 31 Aug 2005 Inward
USD million	120		72.7	
EUR million	31	28	25.9	13.6
NOK million		605		297.0
PLN million		25		12.1

The Group classifies forward contracts that are used to hedge forecast transactions as cash flow hedging. The actual value of forward contracts used to hedge forecast flows totalled a net amount of SEK 0 million as of 31 August 2006. Assets amounted to SEK 10 million and liabilities to SEK 10 million. These amounts are recorded in the balance sheet. On the closing date, underlying value of currency contracts amounted to USD 52 million, NOK –122 million and PLN –18 million.

Translation exposure

KappAhl uses Swedish kronor for its income statement and balance sheet. Parts of the Group use other currencies for their accounts, which mean that KappAhl's consolidated profit/loss and equity are exposed to exchange rate fluctuations. This type of currency exposure is called translation exposure and is not hedged, as this would have an undesired effect on the income statement.

The Group's net foreign assets are distributed into the following currencies:

	Group	
Currency SEK million	31 Aug 2006	31 Aug 2005
NOK	273	145
EUR	84	66
PLN	10	6
HKD	4	5

24 OPERATIONAL LEASING

Lease agreements where the company is the lessee

Non-cancellable lease payments amount to:

	Group		Parent company	
SEK million	31 Aug 2006	31 Aug 2005	31 Aug 2006	31 Aug 2005
Within one year	1.3	1.6	—	—
Between one and five years	1.3	1.7	—	—
	2.6	**3.3**	**—**	**—**

25 INVESTMENT COMMITMENTS

Group

In 2006 the Group signed some agreements of low value regarding the acquisition of tangible fixed assets, mainly for new stores. All agreements are within the Group's overall capital expenditures budget, which for the coming financial year is at a level comparable with the outcome for the financial year that ended on 31 August 2006. These undertakings are expected to be settled over the course of the next financial year.

26 PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent company	
SEK million	31 Aug 2006	31 Aug 2005	31 Aug 2006	31 Aug 2005
Pledged assets				
In the form of assets pledged to secure the company's own liabilities and provisions				
Floating charge	43.1	43.1	—	—
Net assets in subsidiaries	1,383.1	1,561.8	—	—
Shares in subsidiaries	—	—	1,271.1	1,271.1
Total pledged assets	**1,426.2**	**1,604.9**	**1,271.1**	**1,271.1**
Contingent liabilities				
Guarantee undertakings, FPG/PRI	0.4	0.4	None	None
Purchase guarantee	0.2	0.2	None	None
Total contingent liabilities	**0.6**	**0.6**	**None**	**None**

27 RELATED PARTIES

Related party relationships

The parent company has a related party relationship with its subsidiaries, see note 28.

Summary of transactions with related parties

Paul Frankenius, a member of the Board (and formerly Executive Vice President), is a shareholder in and director of Total Logistik Sweden AB, the Norwegian subsidiary of which supplies logistics services for cosmetics for KappAhl's Norwegian stores.

Transactions with related parties are priced at market rates. During the 12 months of the financial year, the Group's purchasing from Total Logistik amounted to SEK 1 million.

Transactions with key individuals in senior positions

Christian W Jansson, the company's CEO, and Paul Frankenius, a member of the Board (and formerly Executive Vice President), control 24.5 per cent of the voting rights in the company through a company called Pegatro Ltd. Other senior executives control 2.4 per cent of the voting rights in the company.

Note 27 continued

The combined remuneration is included in "Personnel expenses" (see Note 5):

SEK million	1 Sep 2005 31 Aug 2006	1 Jan 2005 31 Aug 2005
Board members	1.1	0.5
Senior executives	11.3	19.5
Remuneration after terminated employment	—	—

28 PARTICIPATIONS IN GROUP COMPANIES

	Parent company	
SEK million	31 Aug 2006	31 Aug 2005
Accumulated acquisition values		
Opening balance	1,271.1	1,888.1
Purchases	—	—
Change in acquisition analysis		– 40.0
Acquisition of all shares in KappAhl AS and KappAhl OY	1,700.0	
Write-down due to anticipated dividends for shares in KappAhl AS and KappAhl OY		– 577.0
Closing balance	**2,971.1**	**1,271.1**

Specification of the parent company's and the Group's holdings in Group companies

Subsidiary / Corporate ID number / Registered office	Number of shares	Share in %	31 Aug. 2006 Recorded value	31 Aug. 2005 Recorded value
KappAhl AB	60,000	100.0	1,271.1	1,271.1
KappAhl AS, 947659138, Norway		100.0	1,400.0	
KappAhl OY, 460.230, Finland		100.0	300.0	
Indirectly owned				
KappAhl Åland AB, 1737564-2, Mariehamn		100.0		
KappAhl Polska Sp.zo.o, 526-22-60-963, Poland		100.0		
KappAhl Czech Republic s.r.o, 26447142, Czech Republic		100.0		
KappAhl Far East Ltd, 438724, Hong Kong		100.0		
Detaljhandel Logistik AB, 556636-2132, Sweden		100.0		
			2,971.1	**1,271.1**

29 CASH FLOW STATEMENT

The cash flow statement was drawn up using the indirect method.

Cash and cash equivalents

SEK million	Group 31 Aug 2006	Group 31 Aug 2005
The following components are included in cash and cash equivalents		
Cash and cash equivalents (+ available funds in overdraft facilities)	72.3	83.2
Total according to the balance sheet and cash flow statement	**72.3**	**83.2**

Cash and cash equivalents

SEK million	Parent company 31 Aug 2006	Parent company 31 Aug 2005
The following components are included in cash and cash equivalents:		
Cash and cash equivalents (+ available funds in overdraft facilities)	0.0	0.0
Total according to the balance sheet and cash flow statement	**0.0**	**0.0**

Interest paid and dividend received

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005	Parent company 1 Sep 2005 31 Aug 2006	Parent company 1 Jan 2005 31 Aug 2005
Interest received	1.8	2.3	—	3.8
Interest paid and other financial items	– 113.5	– 98.4	– 112.9	– 1.4
	– 111.7	**– 96.1**	**– 112.9**	**2.4**

Adjustment for non-cash items

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005	Parent company 1 Sep 2005 31 Aug 2006	Parent company 1 Jan 2005 31 Aug 2005
Anticipated dividend	—	—		1,122.9
Depreciation	173.3	98.2		
Unrealised exchange rate difference	—	3.8	—	—
Provisions for pensions	– 10.2	8.0	—	—
Other provisions	– 41.7	1.0	0.1	—
	121.4	**111.0**	**0.1**	**1,122.9**

Acquisition of subsidiary and other business units

SEK million	Group 1 Sep 2005 31 Aug 2006	Group 1 Jan 2005 31 Aug 2005
Purchase price:	—	– 40.0
Repaid purchase price	—	– 40.0
Less: Cash and cash equivalents in the acquired operation	—	—
Effect on cash and cash equivalents	**—**	**– 40.0**

30 EVENTS AFTER THE CLOSING DATE

The financial reports were approved for issue by the Parent Company's Board of Directors on 8 November, 2006.

Customs dispute in Norway
During the financial year a dispute with the customs authority in Norway was settled in KappAhl's favour. The verdict gained legal force after the end of the financial year.

31 CRITICAL ESTIMATES AND ASSESSMENTS

The Group's corporate management has held discussions with the Audit Committee on the subject of the development, decisions and information relating to the Group's critical accounting principles and assessments, as well as on the application of these principles and assessments

Impairment tests
Impairment test for goodwill and brands are described in Note 10.

Inventory valuation
The inventory has been valued at the lower of the acquisition value and the net realisable value. The amount of the net realisable value takes into account calculations based, among other things, on estimates of future selling prices, taking also into account discounts. The actual future sales prices may differ from the estimates.

32 PARENT COMPANY DETAILS

KappAhl Holding AB is a Swedish limited company (corporate ID number 556661-2312) that is registered in Mölndal. The head office address is: Idrottsvägen 14, SE-431 24 Mölndal, Sweden. The consolidated accounts for 2005/06 consist of the parent company and its subsidiaries referred to as the Group.

The Board and CEO certify that, as far as they are aware, the annual report has been produced in accordance with good accounting practices for listed companies, that the submitted information is in agreement with actual conditions and that nothing of significance has been omitted that could have affected the picture of the company created by this annual report.

Mölndal, 8 November 2006

Finn Johnsson
Chairman of the board

Amelia Adamo

Paul Frankenius

Bodil Nilsson
Employee representative

Jan Samuelson

Pernilla Ström

Bo Söderberg

Rose-Marie Zell-Lindström
Employee representative

Christian W. Jansson
CEO

Our audit report was issued on 8 November 2006
PricewaterhouseCoopers AB

Bror Frid
Authorised Public Accountant

Audit report

To the general meeting of the shareholders of KappAhl Holding AB.
Corporate Identity Number 556661-2312

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the CEO of KappAhl Holding AB (publ.) for the financial year 1 September 2005 – 31 August 2006. The board of directors and the CEO are responsible for these accounts and the administration of the company as well as for the application of international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the CEO and significant estimates made by the board of directors and the CEO when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the CEO. We also examined whether any board member or the CEO has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with the international financial reporting standards IFRS as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the consolidated accounts.

We recommend to the meeting of shareholders that the income statement and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the CEO be discharged from liability for the financial year.

Göteborg, 8 November 2006

PricewaterhouseCoopers AB

Bror Frid
Authorised Public Accountant

Corporate governance report

KappAhl Holding AB (publ.) is a public Swedish company whose shares are quoted on the Stockholm stock exchange.

Corporate governance within KappAhl is based on legal compliance, the listing agreement and good trade practices. Corporate governance is also linked with relevant guidelines and statements such as the 2006 annual report of the Swedish Corporate Governance Board.

This report has been written in accordance with the Swedish Code of Corporate Governance (the "Code") and is applicable for the financial year. This report has not been checked by the company's auditors. KappAhl's articles of association and further information about corporate governance at KappAhl can be found at www.kappahl.com/ir

APPLICATION OF THE CODE

KappAhl has applied the Code since its listing on the stock exchange on 23 February 2006, with the following exceptions:

- Point 3.8.2 of the Code prescribes that the Audit Committee shall comprise at least three Board members. KappAhl's Audit Committee comprises two members. The reason for this difference is that Kristoffer Melinder was appointed member of the Audit Committee when the Board held its first meeting on 3 January 2006 but he then left the Board in connection with the stock exchange listing, as explained in the listing prospectus. The Nominating Committee has noted this situation and intends to take the matter into consideration ahead of making new nominations.
- The Nominating Committee has been appointed in accordance with the decision of the shareholders' meeting, but shareholders have not agreed on the procedure for replacing a committee member who leaves the committee before its work is concluded. The reason for deviating from point 2.1.1 of the Code is that the Nominating Committee has decided its own procedure for replacement if it should prove necessary before the next annual general meeting. KappAhl's intention is that the annual general meeting held on 21 December 2006 shall reach agreement on replacement procedure.

SHAREHOLDERS, ETC.

According to the register kept by VPC, the Swedish Securities Register Centre, KappAhl had 6,663 shareholders on 31 August 2006. Foreign investors owned around 80 per cent of shares. The ten largest shareholders as of 31 August 2006 are indicated in the directors' report. More information about significant shareholders can be found at www.kappahl.com/ir

In connection with the stock exchange listing, selling shareholders, senior executives and Board members elected by shareholders all agreed that for certain periods they would not sell or pledge their shareholding in KappAhl. At the time of the publication of this report these commitments had come to an end for the selling shareholders, i.e. Nordic Fashion S.a.r.l., Accent Equity 2003 KB and Accent Equity 2003 L.P., but they still apply for senior executives and Board members according to statements in the listing prospectus (see www.kappahl.com/ir). For KappAhl's CEO, Christian W. Jansson, and Board member, Paul Frankenius, who are joint owners of Pegatro Ltd., the commitment means that up to 22 February 2007 they will not sell or pledge any of the shares in KappAhl they held on the listing date, and that thereafter they may only sell or pledge half of the share holding up to 22 February 2008.

In addition to the mentioned lock-up commitments, normal trading prohibitions prescribed by law apply for people receiving information that may affect the share price along with other rules in KappAhl's insider policy, which can set further restrictions for those who have made the above commitment.

SHARES

The share capital in KappAhl Holding AB (publ) amounted on 31 August 2006 to SEK 10,720,000 divided among 75,040,000 shares. A round lot comprises 100 shares and trading takes place on the Stockholm stock exchange. KappAhl's market value as of 31 August 2006 was around SEK 3,467 million.

All shares are of the same type, entitling shareholders to the same rights in terms of the company's assets, profits and dividends. KappAhl's dividend policy means that the

Board at future annual general meetings will propose a dividend corresponding to 50–70 per cent of net earnings for the previous financial year, providing that KappAhl's capital requirements are met in terms of the company's financial targets and expected future earnings, future position, cash flow, credit terms and other factors.

ANNUAL GENERAL MEETING

The annual general meeting of shareholders is KappAhl's highest decision-making body. The meeting shall be held within six months after the expiry of each financial year. Notice convening an annual general meeting of shareholders shall be issued not earlier than six weeks and not later than four weeks prior to the general meeting. All shareholders listed on the share register and who have given notice of their attendance in good time, have the right to participate and vote at the meeting. Shareholders unable to attend may be represented by nominees. KappAhl has decided that it is not economically viable to give shareholders the opportunity to follow or participate in the meeting from another site.

The most recent shareholders' meeting was the annual general meeting held on 3 January 2006 in Mölndal. All shareholders were present at the meeting. It was decided, among other matters, that KappAhl would become a publicly listed company, with new articles of association, and to make a 7:1 split of shares. A Board of Directors comprising Finn Johnsson (chairman), Amelia Adamo, Kristoffer Melinder, Jan Samuelson, Pernilla Ström and Bo Söderberg was re-elected along with a new Board member elected for the first time, Paul Frankenius. As promised in the listing prospectus, Kristoffer Melinder then resigned from the Board in March 2006 in connection with Nordic Fashion S.a.r.l.'s sale of its shareholding at the time of listing. Minutes from the meeting of 3 January 2006 are available at www.kappahl.com/ir. KappAhl considers that the composition of the ownership base does not merit a translation of the minutes into English in accordance with point 1.4.5 of the Code, especially since all the significant information about the decisions of the meeting were reported in the listing document which was available in English.

The next annual general meeting of shareholders will be held in Mölndal on 21 December 2006. Shareholders wishing to get an item addressed at the meeting shall do so by submitting a written request to KappAhl Holding AB (publ), Att: Chairman of the Board, Idrottsvägen 14, SE-431 24, Mölndal. The request must reach the Board at least seven weeks before the meeting, or within such time that it can, if necessary, be included in the notification of the meeting. See also www.kappahl.com/ir.

NOMINATING COMMITTEE

Election of Board

Ahead of the annual general meeting on 3 January 2006, when KappAhl was not yet a listed company, a proposal was submitted by the then largest shareholder concerning election of Board members.

During the meeting a new nominating process was adopted along with guidelines for establishing a Nominating Committee. The nomination of Board members and proposals for their fees are now presented in accordance with this nominating process, and a committee comprising four members has been appointed. The members shall be representatives of the three largest owners in the week prior to publication of the third quarter interim report, together with the chairman of the Board. As announced in a press release dated 28 June 2006, the Nominating Committee for the next annual general meeting comprises Jan Olsson (Accent Equity), Kristoffer Melinder (Nordic Fashion S.a.r.l.), Kristian Lundius (Pegatro Ltd.), and Finn Johnsson, chairman of the Board. The Nominating Committee convened its first meeting on 16 August 2006 and Jan Olsson was appointed committee chairman. The committee will present its proposals in connection with the notification of the annual general meeting. Shareholders wishing to submit suggestions to the Nominating Committee can do so by following the procedures outlined at www.kappahl.com/ir.

Members of the Nominating Committee represent shareholders. The committee's role is to assess the competence and qualities required for Board members and they use their networks and contacts to identify candidates. The aim is to create a suitable composition of the Board

and ensure that the joint skills and experience of Board members have a broad enough base to suit the phases KappAhl goes through and the market situations it encounters.

KappAhl's customers are primarily women and the Nominating Committee has therefore considered it desirable to have a high proportion of female Board members. Furthermore, the committee keeps itself up-to-date on the levels of fees that are normal for listed companies along with other topics that fall within its remit.

The chairman of the committee, Finn Johnsson, commissioned during the summer of 2006 an individual assessment of the work of the Board and its committees (a similar assessment was conducted on 16 December 2005). The results of the latest assessment were reported to the committee on 16 August 2006. The assessment called for, among other things, more in-depth discussion by the Board of certain strategic issues, which will be discussed at future meetings. The chairman of the Board meanwhile presented his assessment of the work of the Board and its committees, regarding competence requirements in certain areas seen in relation to the competence profiles Board members have.

The Nominating Committee has made the assessment that five of the six Board members elected by shareholders are independent in their relation to the company and senior executives. Paul Frankenius, formerly deputy CEO of KappAhl, may, in accordance with the Code's definition in point 3.2.4, not be considered independent in his relation to the company and senior executives.

The Nominating Committee has further made the assessment that four of the five Board members elected by shareholders, who are independent in their relation to the company and senior executives, are also independent of the company's largest shareholders. In accordance with the Code's definition in point 3.2.5, Bo Söderberg cannot be considered independent of an owner who owns at least 10 per cent of KappAhl's shares.

Ahead of the annual general meeting in December 2006 the Nominating Committee will make proposals for the chairman of the meeting, the number of Board members, the chairman of the Board and other Board members to be elected by the meeting. The committee will also make proposals for fees for working on the Board and on committees.

No remuneration has been given to the chairman of the Nominating Committee or any other members of the committee for their work on the committee.

Election of auditors

The 2005 AGM appointed PricewaterhouseCoopers AB as auditors with Bror Frid as the lead auditor for the period up to the AGM held in the fourth year after the election of auditors. The Nominating Committee made the judgement that PricewaterhouseCoopers AB has the necessary competence and experience for the assignment. Bror Frid reported his observations in person at the Board meeting of 29 September 2006 and also presented his views on the quality of internal controls within KappAhl.

Bror Frid has led the auditing assignment at KappAhl. He also has parallel auditing assignments at the following large companies: Gunnebo, Gunnebo Industrier and VBG. He has no assignments in companies with close links to the main owners of KappAhl.

Within the framework of the auditing assignment, the annual report, accounts and the administration of the CEO and Board are checked. In addition to the auditing assignment, which is remunerated in accordance with normal debit norms and the principle of a fixed account, PricewaterhouseCoopers AB has during the financial year sold services to the company for around SEK 1.9 million, most of which was related to the change in the financial year, adjustments relating to IFRS and work on the listing prospectus. Other accounting firms are also assigned to perform auditing work.

THE BOARD

General

The Board is responsible for the company's organisation and the administration of the company's affairs. Seven ordinary members were elected to the Board by the annual general meeting in January 2006. The Board also includes two members appointed by the trade unions, who each has a deputy. Jonas Frii, lawyer, is the secretary of the Board. Since the annual general meeting on 3 January and up to 31 August 2006 the Board has held five meet-

ings, for all of which minutes were kept. One meeting was a Board meeting after election, three meetings were ordinary meetings and one meeting was an extra meeting. Apart from the following, all members attended all meetings: Amelia Adamo did not attend on 3 January and 27 June, Bo Söderberg did not attend on 3 January, and Rose-Marie Zell-Lindström did not attend on 4 February 2006.

The CEO and CFO made presentations at Board meetings.

Remuneration and benefits for Board members are presented in Note 19 on page 66. Board members' shareholdings in KappAhl are presented on page 82.

Work of the Board

Between annual general meetings the Board shall hold four to six meetings. These meetings normally take place at the head office in Mölndal. Extra meetings may also be arranged and they may take the form of a telephone conference if time prevents a more conventional meeting.

The chairman leads and organises the work of the Board. Prior to each meeting, a proposed agenda and relevant documents are sent out. The proposed agenda is drawn up by the chairman in consultation with the CEO. Matters are presented at meetings either for a decision or to provide information. Decisions are made after a discussion and after all members have had an opportunity to speak. The broad experience of members in various areas often leads to an open and constructive discussion. On a few occasions, after a conflict of opinions for example, further preparations are required before a decision is made. During the year no Board member has opposed any of the decisions made. Open questions are followed up continually.

The Board has not divided responsibilities among members other than that which is required by the guiding document, the work procedures. These procedures were established at the first Board meeting after election on 3 January 2006 and are revised annually. They stipulate the division of assignments between chairman, Board members and committees, and indicate which matters are to be addressed at certain meetings. For example, the June meeting addresses KappAhl's foreign business activities. At each ordinary meeting, directors receives reports from the Audit Committee, Remuneration Committee and senior executives. Decisions are also made concerning new start-ups and investments.

The most important matters addressed by the Board during the year were the decision to refinance the company, list shares on the Stockholm stock exchange and issue the prospectus prior to listing. The Board also made decisions concerning a number of start-ups.

Each month Board members receive earnings reports about the business. After significant events, or in connection with longer intervals between Board meetings, the CEO sends memoranda that describe business and market conditions. The purpose is to keep the Board informed about the development of the business so that the Board can make well-informed decisions. Once a year the Board makes an assessment of the work of the CEO. No senior executives are present at this assessment.

The Board assures the quality of financial reporting through its own work, through the preparatory work of the audit committee and through contacts with auditors. In connection with the presentation of the audit report, the Board met with auditors without the CEO or other senior executives being present.

Board of directors

At present, KappAhl's Board comprises eight members, including the chairman, and two deputies. The presentation of the Board on page 80 includes a list of other assignments and relevant shareholdings. All Board members were elected in 2004, except for Paul Frankenius, who was elected in 2006. For more information, see www.kappahl.com/ir.

Remuneration Committee, etc.

The Remuneration Committee was appointed by the Board at its first meeting after election. Until the annual general meeting on 21 December 2006 the committee comprises Finn Johnsson (chairman), Amelia Adamo and Bo Söderberg. The committee prepares questions about the remuneration and other employment terms for managers and about bonus and rewards schemes within the Group. The committee also makes proposals regarding the distribution

of fees granted for committee work. All members of the Remuneration Committee are independent of KappAhl's senior management team.

The committee is led by the chairman of the Board and held two meetings during the year, both of which were attended by all members. The committee works according to written procedures set by the Board. In addition to reporting at each Board meeting, the committee shall submit a written report at least once a year. The committee does not have the authority to make decisions, other than those decisions taken as a result of implementing the remuneration policy.

A remuneration policy (previously salaries policy) for senior executives was adopted at the annual general meeting on 3 January 2006. The policy did not change any of the salary principles observed in 2005. The new policy means, among other things, that senior executives shall be offered a fixed salary that is market-related and based on responsibility and performance. Salaries shall be set for the calendar year, and a senior executive may, from time to time, be offered a bonus that can be a maximum of 25 per cent of fixed salary. Any bonuses shall primarily be based on the operating profits of the KappAhl Group. Senior executives and the company must both observe a period of six months' notice of dismissal. There is no severance pay. At present there are no rewards schemes based on share performance.

The remuneration policy is reviewed annually and is presented to the annual general meeting for approval. The Remuneration Committee implements the policy.

Audit Committee

The Audit Committee was also appointed by the Board at its first meeting after election. Until the annual general meeting on 21 December 2006 the committee comprises Jan Samuelson (chairman) and Pernilla Ström. The Nominating Committee considers that both meet the criteria of being independent in relation to the company and senior executives. The Audit Committee provides support to the Board concerning internal and external audits, financial reporting and controls. The committee communicates with the company's auditors about issues that fall within the committee's remit. During 2006 the work of the committee included preparing questions concerning the interim reports and, as prescribed by the Code, preparing the report on internal controls. After the annual general meeting on 3 January and up to 31 August 2006 the committee had five meetings, for all of which minutes were kept. All committee members attended all meetings. The Board's secretary is also the secretary of the committee. The work of the committee follows written procedures set by the Board, and in addition to making reports at each Board meeting, the committee submits a written report to the Board at least once a year. Minutes of committee meetings are read by the Board. The committee is a preparatory body that is not authorised to make decisions.

Management team

KappAhl's management team, and their shareholdings, are presented on page 80.

REPORT ON INTERNAL CONTROLS

The aim of internal controls within KappAhl is to create a clear and efficient decision-making process in which demands, goals and frameworks are clearly defined. As part of this work the Board has produced a report on internal controls concerning the financial reporting for the financial year. The main content of the report, which is summarised below, is in accordance with the Code and its instructions for implementation. The report also explains how internal controls for financial reporting are organised. Neither the report or the summary below have been checked by the company's auditors.

Control environment

A distinct division of roles and responsibility for the efficient management of business risks is ensured through the work procedures for the Board and Board committees and the written instructions for the CEO. The CEO and the Audit Committee report regularly to the Board in accordance with fixed procedures. The CEO is responsible for the system of internal controls that are required to create a control environment for significant risks in day

to day business. The composition of the senior management team provides a geographic and strategic division of responsibility with the aim of keeping decision-making paths short.

The Board's most important guidelines and policies cover financial controls, communication issues and business ethics. Joint financial, reporting and investment policies set frameworks for financial control and follow-up.

KappAhl's communication policy aims to ensure that all interested parties are treated equally and receive significant information at the right time while meeting legal requirements and observing stock market rules.

KappAhl has also adopted a Code of Conduct for the entire Group. This is based on a series of internationally accepted conventions and expresses the values and guidelines applicable within the Group with regard to business ethics, freedoms and rights.

Risk assessment and control activities

Supported by the Audit Committee, the Board is responsible for identifying and managing all significant financial risks and risks associated with errors in financial reporting. Continuous routines are in place for evaluating risk in KappAhl's business processes; the evaluation of risks connected with changes in accounting regulations is one example.

During the financial year a risk analysis was performed with the aim of identifying significant business risks and their potential impact on financial reporting. KappAhl has also identified the processes in which the risk of significant error in financial reporting is relatively high due to the complexity of business processes or the relative importance of items due to their size or transaction volume.

Risk assessment has resulted in a series of control activities. The latter aim to detect or prevent the risk of errors in financial reporting. Control activities for the most risk-filled processes have been evaluated and documented during the year. Follow-up is continuous in order to improve the control activities.

Information and communication

The dissemination of accurate information, for both internal and external consumption, requires that all parts of the business communicate and share key information with each other. To achieve this, KappAhl has established policies and guidelines for financial processes, which are communicated among management and staff. The purpose is to identify, report and monitor the financial process and correct any shortcomings. Through the Audit Committee the Board receives regular feedback from the business regarding internal control aspects in the financial reporting. KappAhl has an information policy that covers external information and which, inter alia, aims to ensure that legal requirements and listing regulations are followed.

Follow-up

The Board continually evaluates the information received from the CEO and Audit Committee. Of special importance for the Board is the Audit Committee's work in following up the efficiency with which the CEO manages the internal controls of the business. This work includes ensuring that measures are implemented to correct errors and meet proposals identified during the external audit.

Internal audit

To date, KappAhl has not considered it necessary to establish a staff for internal auditing. This matter will be reviewed during the 2006/2007 financial year.

Company Management

LINDA HAMBERG
Vice President, Sales
B.Sc. in business administration. Born: 1951
Employed since 1981, sales director since 2004.
Shareholding: 252,000 shares

SOFIA ROXENDAL
Vice President, Information Technology and Logistics
Chemical engineer. Born: 1968
Employed since 2000, director of information technology and logistics since 2005.
Shareholding: 84,000 shares

HÅKAN WESTIN
Chief Financial Officer
B.Sc. in business administration. Born: 1959
Employed since 1989, CFO since 2001.
Shareholding: 420,000 shares

From left: Linda Hamberg, Sofia Roxendal, Håkan Westin, Kajsa Räftegård, Gudrun Fahlback, Christian W. Jansson and Mari Svensson

KAJSA RÄFTEGÅRD
Vice President, Human Resources and Public Relations
B.Sc. social sciences.
Born: 1965
Employed since 1995, human resources and public relations director since 2002.
Shareholding: 252,000 shares

GUDRUN FAHLBACK
Vice President, Business Development and Marketing
B.Sc. business administration.
Born: 1948
Employed since 2003, business development and marketing director since 2006.
Board assignments: ALMI Företagspartner Skåne AB.
Shareholding: 252,000 shares

CHRISTIAN W. JANSSON
President and CEO
B.Sc. business administration.
Born: 1949
Employed since 2002.
Board assignments: chairman of Semcon AB.
Shareholding: 9,548,000 shares (indirectly through Pegatro)

MARI SVENSSON
Vice President, Purchasing
B.Sc. business administration.
Born: 1963
Employed since 2000, purchasing director since 2004.
Shareholding: 252,000 shares

The Board of Directors

PAUL FRANKENIUS
Board member, senior advisor to the management.
Born: 1958
Deputy CEO of KappAhl 2002 up to January 2006.
Other board assignments: chairman of Föreningssparbanken Sjuhärad. Board member of Scorett Foot Wear AB.
Shareholding: 9,548,000 shares (through Pegatro Ltd, which is jointly owned in equal parts by Paul Frankenius and Christian W. Jansson).

PERNILLA STRÖM
Board member
Economist. Born: 1962
Other board assignments: Bonnier AB, SalusAnsvar AB, Q-Med AB, Hagströmer & Qviberg AB, Uniflex AB and Swedish Meats ek för.
Shareholding: 140,000 shares

EVA LARSSON
Employee representative (deputy)
Saleswoman. Born: 1950
Other board assignments: –
Shareholding: 0

MELINDA HEDSTRÖM
Employee representative (deputy)
Saleswoman. Born: 1966
Other board assignments: –
Shareholding: 0

From left: Paul Frankenius, Pernilla Ström, Eva Larsson, Melinda Hedström, Finn Johnsson, Jan Samuelson, Bodil Nilsson, Amelia Adamo, Rose-Marie Zell-Lindström and Bo Söderberg

FINN JOHNSSON
Chairman of the Board
B.Sc. business administration.
Born: 1946
Other board assignments: chairman of AB Volvo, Luvata Oy, Thomas Concrete Group AB, Unomedical A/S och City Airline, and Board member of, inter alia, Skanska AB and AB Industrivärden.
Shareholding: 280,000 shares (via related parties)

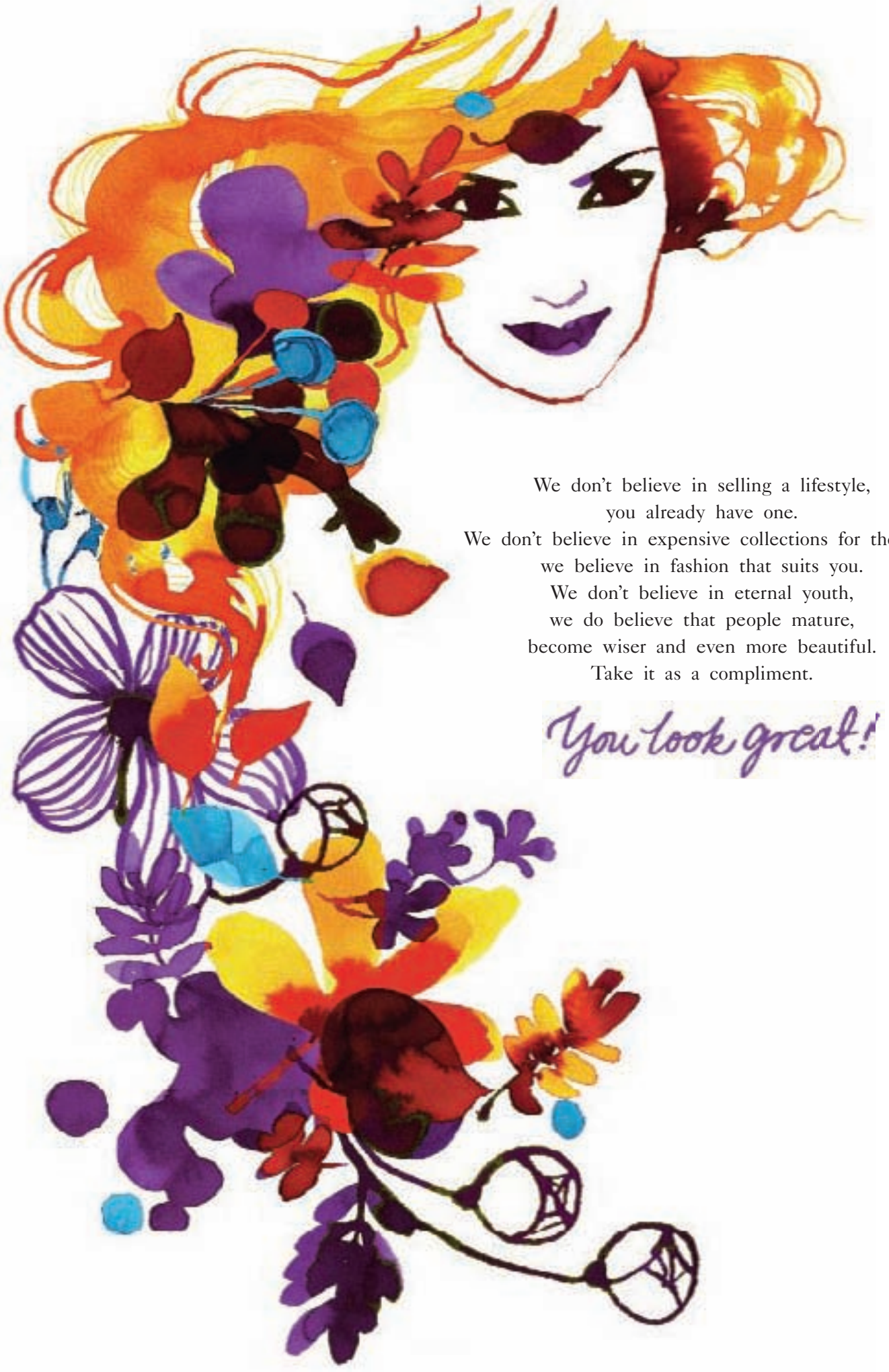
JAN SAMUELSON
Board member
B.Sc. business administration.
Born: 1963
Employed by Accent Equity Partners AB, who are advisors to AEP 2003 KB and AEP 2003 Limited.
Other board assignments: chairman of Euroflorist AB. Board member of Wernersson Ost Holding AB, Cefar AB, Accent Equity Partners AB and AB Annas Pepparkakor.
Shareholding: 0

BODIL NILSSON
Employee representative.
Saleswoman. Born: 1948
Other board assignments: –
Shareholding: 200

AMELIA ADAMO
Board member
B.Sc. social sciences.
Born: 1947
Other board assignments: Amelia Publishing Group within Bonnier Tidskrifter AB (where she is chief publicist), Sveriges Tidskrifter and SSSR Holding AB.
Shareholding: 140,000 shares

ROSE-MARIE ZELL-LINDSTRÖM
Employee representative.
Store manager. Born: 1947
Other board assignments: –
Shareholding: 0

BO SÖDERBERG
Board member
B.Sc. business administration.
Born: 1942
Partner at Nordic Capital since 1997.
Other board assignments: Unomedical A/S, Electronic Transaction Group Nordic Holding AB and EDT Holding AB.
Shareholding: 0



We don't believe in selling a lifestyle,
you already have one.
We don't believe in expensive collections for the few,
we believe in fashion that suits you.
We don't believe in eternal youth,
we do believe that people mature,
become wiser and even more beautiful.
Take it as a compliment.

You look great!

Definitions

EQUITY/ASSETS RATIO
Shareholders' equity/balance sheet total

EARNINGS PER SHARE
Earnings after tax/average no. of shares

EARNINGS PER SHARE AFTER DILUTION
Earnings after tax/average no. of shares after full dilution

EQUITY PER SHARE
Shareholders' equity/average no. of shares

EBITA
Earnings before amortisation of intangible assets

EBITDA
Earnings before amortisation

AVERAGE NO. OF EMPLOYEES
Average no. of employees restated as full-time employees

INTEREST COVERAGE RATIO (TIMES)
EBITDA/ net interest excluding one-off items for the most recent 12-month period

NET INTEREST-BEARING LIABILITIES
Interest-bearing liabilities less liquid funds

NET INTEREST-BEARING LIABILITIES/EBITDA (TIMES)
Net interest-bearing liabilities/EBITDA for the most recent 12-month period